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Report of the Auditor General of Canada to the House of Commons

Foreword and Main Points

April and October 1997

This April and October Report comprises 21 chapters and a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

To The Honourable the Speaker of the House of Commons:

I have the honour to transmit herewith my first Report of 1997 to the House of Commons, to be laid before the House in accordance with the provisions of section 7(5) of the *Auditor General Act*.

L. Denis Desautels, FCA Auditor General of Canada

### **April and October 1997**

**Foreword and Main Points** 

April and October 1997

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## Report of the Auditor General to the House of Commons for April and October 1997

#### **Foreword**

I am pleased to present the April and October volume of my 1997 Report. Bound with this Foreword are the Main Points of 21 chapters, which are issued separately. The tabling of chapters 1 through 10 had been planned for April, but was deferred when the 35th Parliament ended with the call for the federal election of last June. This Report volume contains the following chapters:

- 1. Maintaining a Competent and Efficient Public Service
- 2. Financial Management: Developing a Capability Model
- 3. Management of the Government's Accounting Function: A Central Agency Perspective
- 4. Control of the Transboundary Movement of Hazardous Waste
- 5. Reporting Performance in the Expenditure Management System
- 6. Contracting Performance
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- 20. Public Works and Government Services Canada Privatization of the Canada Communication Group
- 21. Household Goods Removal Services of the Federal Government

#### Foreword (cont'd)

Ongoing change has become a permanent feature of the federal government as it continues to seek more efficient, economical and effective ways of delivering programs and services to Canadians. The effects of recent downsizing and budget cuts are still being felt, even as public servants engage in re—engineering and redesigning the way they must work in the future to be able to adjust to new realities.

Part of this redesign involves changes to the basic infrastructure for accountability in the federal government. Several chapters in this Report reflect ongoing work by this Office to help ensure that in its changes the government "gets the fundamentals right." Studies reported here will serve as a foundation for much of the audit work we plan to carry out in the months ahead.

The government's use of alternative, market—like mechanisms to deliver services is increasing at the same time as many of the rigid rules and procedures of the past are being challenged. This makes it more critical than ever that decision makers have the right information at the right time. The Report highlights the need to improve the quality of information for financial management and to modernize the systems that produce it. Cost awareness and an attitude of stewardship for resources need to be encouraged at all levels.

In particular, the Report discusses recent initiatives by the government to transfer to the private sector the delivery of some services. It highlights lessons learned to date that, if heeded, should result in greater protection of the taxpayers' interests in any future such transfers.

The Report also stresses the need for senior managers to know and state more clearly what they expect their programs and activities to achieve, and to measure and report in more concrete terms the results they attribute to those efforts. Knowing where resources have had the desired effect — and where they have not — will enable decision makers to continue successful activities or make the necessary adjustments to provide Canadian taxpayers with the best value for their money.



### Maintaining a Competent and Efficient Public Service

Assistant Auditor General: Maria Barrados Responsible Authors: Alick Andrews and Otto Brodtrick

### Chapter 1 - Main Points

- 1.1 The public service's effectiveness, and the efficiency with which it carries out its functions, are crucial to the quality of governance and to the economic, social and political health of the country.
- 1.2 About 500,000 men and women have some form of employment in the federal public sector; about 207,000 of those constituted the traditional public service as of March 1996. The federal public service is an institution under pressure to change and adapt: pressure from Canadians, the economic-political environment, and advocates of management reform. All participants in our study were convinced of the importance of building on the strengths of the past to ensure that Canada enters the twenty-first century with a modern, world-class public service.
- **1.3** Particular attention needs to be given to renewing and rejuvenating the public service work force; resolving long-standing human resource management issues; establishing a more constructive dialogue on performance and partnership; and continuity of leadership and persistence in moving forward.
- 1.4 The public service faces the challenge of identifying and filling the gaps resulting from recent departures, as well as building the human resource capacity to meet new challenges and provide for a strong public service in the future. Problems with three of the important personnel systems need to be addressed. Various attempts have been made to modernize them but more needs to be done.
- 1.5 Improved ways of dealing with shortfalls in administrative performance need to be found. An effective public service needs a Parliament and media that can fairly discuss errors in the context of overall performance.
- **1.6** Persistent and ongoing effort is required to address these challenges. Further discussion and debate are required on the future size and tasks of the public service and on the organizational approach to take.



Assistant Auditor General: Douglas G. Timmins Responsible Auditor: Hugh A. McRoberts

### Financial Management: Developing a Capability Model

#### Chapter 2 - Main Points

- 2.1 The environment within which the government is operating today is rapidly changing. The effects of limited resources, downsizing and delayering are placing greater demands on the government in providing services to Canadian taxpayers. Within this environment, the need for effective financial management has never been greater. Financial management plays a critical role in contributing to the government's achievement of its goals of reducing its costs and improving its financial position.
- 2.2 Despite the number of royal commissions, audits, studies and Treasury Board Secretariat initiatives over the years, achieving effective financial management in government organizations remains, in our view, a top priority that requires ongoing attention. With each Report of the Auditor General, we continue to observe and report to Parliament on significant problems, across a broad range of government operations, that occur as a consequence of failings in financial management.
- 2.3 These issues represent, in our view, a continuing basis of concern and raise important questions about the state of financial management in the government. Not the least of these is the question of whether our observations represent the type of failings that result from doing business in any large organization, or are symptomatic of more systemic problems in financial management. Additionally, some ministers continue to express to our Office their concern and frustration over the lack of appropriate financial information to support strategic decision making.
- 2.4 The Office of the Auditor General has had, as a long-standing strategic priority, the goals of encouraging better financial management within the federal government and improving the understanding of the role that financial management can and should play. It is for this reason that, in conjunction with the Treasury Board Secretariat, we have initiated this study. The objective of this study is to build on existing work to develop a modern framework that will describe key elements needed for effective financial management and that will provide a basis for assessing the state of financial management within departments and agencies.
- 2.5 This chapter is the first stage of a study designed to respond to the need for a revitalized financial management framework. It is intended to provide a basis for discussion among central agencies, departments and our Office. Once complete, the study will provide an agreed-upon framework to assess financial management capabilities and to improve the effectiveness of financial management in the federal government.
- 2.6 We are very encouraged by the recent initiative of the President of the Treasury Board in establishing an Independent Review Panel on Modernization of Comptrollership in the Government of Canada. The Office supports the work of the Panel, and we will take the results of its work into account as this study proceeds.



Assistant Auditor General: Ron Thompson Responsible Auditor: John Hodgins

# Management of the Government's Accounting Function: A Central Agency Perspective

### **Chapter 3 – Main Points**

- 3.1 The accounting function provides essential information for managing the government and for reporting financial results to Parliament, Canadians and other interested parties.
- 3.2 Although the accounting systems are out-of-date technically, they continue to produce annual financial statements for the government that are credible, understandable and useful. In fact, in the past decade the function has undergone significant improvements and efficiencies that have, among other things, placed Canada at the forefront internationally in this type of reporting.
- 3.3 However, the ability of the accounting function to analyze and interpret financial information throughout the year needs to be strengthened in order to forecast financial results of that year and budget figures for the following year.
- 3.4 In response to these needs, the government is making extensive changes to its accounting function by implementing a Financial Information Strategy. The Strategy should help modernize and strengthen the accounting function. While we agree with the changes being undertaken through the Strategy, we believe that more is needed.
- 3.5 Specifically, we believe that the government should prepare and publish its financial reports in a more timely fashion, and consider other strategies to enhance the usefulness and credibility of its monthly or quarterly reports.
- 3.6 In view of the significant changes under way and planned, we continue to believe that the government should amalgamate its central accounting function and take immediate steps to assess the capability of accounting groups within departments and agencies to implement new systems and accrual accounting.
- 3.7 The government has established an Independent Panel on Modernizing Comptrollership in the Government of Canada. The Panel may wish to consider our findings and recommendations as part of its work.



### **Control of the Transboundary Movement of Hazardous Waste**

Commissioner of the Environment and Sustainable Development: Brian Emmett

Responsible Auditors: Dan Rubenstein or Wayne Cluskey

### Chapter 4 - Main Points

- 4.1 The primary objective of this audit was to determine whether Environment Canada, in co-ordination with other federal departments and the provinces, has established an effective and comprehensive regime to control the transboundary movement of hazardous waste consistent with Canada's international commitments.
- 4.2 Environment Canada has made a good start in establishing an effective and comprehensive regime to control transboundary movements of hazardous waste, but there are still some significant deficiencies. For example, Environment Canada has yet to establish the required capacity for proactive prevention of illegal shipments of hazardous waste. At the border, there is limited enforcement action directed to detecting illegal traffic in hazardous waste.
- 4.3 Canada has an obligation, under international agreements it has signed, to control the exports and imports of hazardous wastes. Revenue Canada Customs Border Services does have an infrastructure to monitor imports on an ongoing basis, but it is not operationally set up to physically control individual export shipments.
- 4.4 There are real monetary incentives for illegal traffic. For example, the cost of processing a legal truckload of hazardous waste can range from \$300 to \$1,200 a tonne.
- 4.5 There is limited chance of detecting illegal traffic in hazardous waste at the border; inspection and effective testing of samples of potentially illegal imports and exports are limited. Moreover, there is an even lower chance of detecting illegal shipments of hazardous wastes at marine ports or railyards.
- 4.6 In an area such as controlling the transboundary movement of hazardous waste, the chain is only as strong as the weakest link. In our opinion, as a result of the significant gaps in the areas of prevention, detection and enforcement and the limited facilities to physically control exports of hazardous waste at the border, Canada is not in a position to know the extent to which it is living up to its international obligations with regard to preventing illegal traffic at the border.



Assistant Auditor General: Maria Barrados Responsible Auditor: John Mayne

### Reporting Performance in the Expenditure Management System

#### **Chapter 5 – Main Points**

- 5.1 Information on how well programs are doing is needed to make informed decisions on how to spend tax dollars and improve programs, and to demonstrate to Parliament and Canadians what they are getting for their taxes. Often, neither the public nor members of Parliament, or managers, have this information. The focus has too often been on describing the services delivered, rather than their results.
- 5.2 The federal government is in the process of revamping its Expenditure Management System, the process by which it plans, budgets and seeks parliamentary approval of future expenditures. The changes create an incentive for departments to develop better information that helps managers provide more effective programs to Canadians and inform Parliament in a more timely way about the results of their activities. Some Canadian provinces and governments abroad have already made important strides toward providing their legislatures and citizens with better information about the performance of government programs.
- **5.3** Progress has been made by several departments, and we found instances in which performance information reported to Parliament addressed many key aspects of performance reporting. In particular, we found improvement in the information's orientation to results. But to fully realize the potential, departments need to describe expected performance more clearly and concretely that is, in more measurable terms. The account they give of performance needs to focus more on the benefits for Canadians. This will take time.
- 5.4 Further progress requires strong leadership by the Treasury Board Secretariat and senior departmental managers. The Treasury Board Secretariat has implemented positive innovations in a short period of time, but needs to improve the consistency of the assistance it provides to departments as well as its efforts to document and communicate good practices in measuring and reporting performance.
- 5.5 The role of parliamentary standing committees is vital to continued progress. If committees ask for information on the results of government activities and visibly use the information in their deliberations, departments will have a powerful incentive to collect and report the information.



### **Contracting Performance**

Assistant Auditor General: Shahid Minto Responsible Auditor: Michael Weir

### Chapter 6 - Main Points

- 6.1 In 1995–96 the government paid outside suppliers about \$14.3 billion (goods, services and construction), which included 6 million separate purchases affecting thousands of responsibility centre managers and suppliers, through 93 departments and agencies and 2,000 procurement experts.
- 6.2 Canada's treaty partners, businesses, appointed and elected officials and its citizens all define "good contracting performance" differently. The contracting process has become increasingly complex.
- 6.3 On the basis of our examination it appears that, while there is much to build on, there is a lot of room to improve the government's contracting performance. The conclusions we have reached are sufficiently serious, and the problems sufficiently widespread and long-standing, to warrant greater top-level attention to contracting than it has received in recent years.
- Some aspects of performance have degraded over time, and others have remained below expectations for decades. Treasury Board has not established baselines despite the multiplicity of conflicting objectives.
- 6.5 Constraints to better contracting (and to more honest reporting about contracting performance) are complex, long-standing and deeply embedded. Because of the nature of the constraints, the variations among individual departments, and the changing environment of government contracting, the potential for improvement is not uniform among departments (and even within them) or across different categories of goods and services.
- 6.6 The Treasury Board and Public Works and Government Services Canada have put in place important elements of a framework to support greater departmental autonomy in contracting. Overall, however, much remains to be done to see that these objectives are understood, accepted and realized in practice.
- 6.7 To maintain effective overall control over increasingly delegated contracting activities, delegation needs to be supported by more effective functional direction and improved visibility for results and decisions. Treasury Board Secretariat needs to:
  - explore better ways of managing long-standing tensions among the responsibilities, expectations and authority of individuals and organizations; and
  - periodically provide Parliament with a better overall strategic assessment of contracting performance and priorities, showing the progress made toward agreed objectives.
- 6.8 Public Works and Government Services Canada can assist by providing functional advice and expertise to other departments. It also needs to ensure that contracting information provided to Treasury Board Secretariat and other stakeholders is timely, credible and free of material error.



### Assistant Auditor General: Shahid Minto

Responsible Auditor: Trevor R. Shaw

### **Acquisition Cards**

### **Chapter 7 – Main Points**

- 7.1 Acquisition cards are a recent instrument of purchase in the federal government. The use of cards has grown rapidly since 1991 and continues to grow. During 1996, approximately 20,000 cards were used to acquire \$172 million of goods and services.
- 7.2 The use of cards has made it difficult to apply traditional financial controls, such as segregation of duties. Essential control cannot be achieved if organizations do not monitor and analyze cards, record and match charges, and carry out periodic audits and verifications of card transactions. We found room for improvement in all these areas. In particular, better information and increased use of electronic tools are needed to modernize control over cards.
- 7.3 Although available measurements do not point to serious losses at the present time, the severity and number of problems could increase if organizations do not strengthen control and share best practices. Now is the time for the government to assess the card program for emerging risks and the management control processes that should be applied.



Assistant Auditor General: Ron Thompson Responsible Auditor: Jeff Greenberg

### Department of Finance — Equalization Program

#### Chapter 8 - Main Points

An essential element of citizenship [in the Canadian federation] must be relatively equal access to basic government services, irrespective of place of residence.

Royal Commission on the Economic Union and Development Prospects for Canada, 1985

- 8.1 This fundamental principle is still the driving force behind the federal government's 40-year-old equalization program, which in 1996–97 transferred \$8.5 billion in unconditional funds to the relatively poorer provinces. Equalization is a responsive program that requires continuing attention and refinement if it is to stay true to its objective.
- 8.2 Since its purpose is to equalize provincial revenue-raising capacity, the key to its success rests on how well the Representative Tax System, the basis for this program, reflects provincial tax systems. As a result, the program must adapt to the constant evolution of these systems. The legislation requires that the program be renewed at least every five years, providing the federal government, in conjunction with the provinces, with a built-in opportunity to keep the program current. We found that this process works, but that it could be more effective if the federal-provincial committee on equalization began its review of outstanding issues earlier in each new equalization period.
- **8.3** We believe that there must be a solid basis for knowing how and why the program should change. In this regard, we suggest that there should be guiding principles for the construction of the Representative Tax System and for aspects of the ceiling and floor, two provisions that limit fluctuations in the payments.
- 8.4 Because final decisions about this program rest with Parliament, we believe that the Department of Finance should make a greater effort to educate Parliament, and the public in general, about how this very complex program works. We also believe that it could use Parliament more effectively, soliciting advice from a wider circle of interested parties, rather than relying almost exclusively on the advice of a committee of federal and provincial officials.
- 8.5 We found that the administrative process by which entitlements are calculated and payments made is reasonable. However, we noted that outstanding balances owed by provinces to the federal government currently bear no interest, resulting in an additional benefit to the provinces of about \$38 million in 1995–96. We believe that the government should review its policy of interest on outstanding balances owed to, or by, the federal government.
- 8.6 We were frequently reminded by officials that the equalization program is important to the Canadian federation. However, this program is only as good as the processes that allow it to keep pace with the shifting sands of provincial tax systems. We believe that the current program and its processes for change work reasonably well, but they could be improved. This is both a challenge and an opportunity for the government, and the Parliament it serves.



Assistant Auditor General: David Rattray Responsible Auditor: John Hitchinson

## Foreign Affairs and International Trade Canada — Financial Management and Control

### **Chapter 9 – Main Points**

- 9.1 Since our 1994 audit, Foreign Affairs and International Trade has continued to improve financial control in areas where problems had previously been identified, specifically the collection of rent from employees and control of money advanced to employees. Financial training has also been improved. While progress has been made in improving basic financial systems, more remains to be done, and an attitude of cost awareness and stewardship needs to continue to be encouraged throughout the Department.
- 9.2 The \$25 fee added to the cost of each passport issued for recovery of consular costs was based initially on incorrect cost information. Subsequent to our audit, the Department undertook a new calculation of costs. Although this recalculation identified a number of cost increases and decreases, no adjustment to the consular fee appears necessary.
- 9.3 The Bureau of Physical Resources has introduced a more businesslike approach to managing property in the Department. However, in some areas control over spending on property maintenance remains weak. Large amounts have been spent on renovating and repairing official residences when heads of mission changed, without the missions and the Bureau together clearly establishing the requirements. The Bureau has not developed an overall financial plan for senior management review that presents likely annual expenditures and revenues, and alternative funding strategies for dealing with the uncertainties inherent in capital projects abroad. Information systems do not yet adequately support the property management function.
- 9.4 The Department has achieved global desk-to-desk communications with the implementation of its Secure Integrated Global Network (SIGNET); however, it has proved to be a greater task than originally envisioned. A new Chief Information Officer (CIO) has been established to be accountable for consolidating the plans and budgets for all information technology expenditures in the Department and recommending priorities. The financial information system was not used in a consistent way for budgeting IT expenditures across the Department.
- 9.5 The Foreign Service Directives (FSDs) have not changed since our last audit. However, recent initiatives to review these directives from the perspectives of tax, complexity and appropriateness could simplify the FSDs. The Department's ability to analyze and provide information on FSD costs has improved; however, the shared management structure for FSDs is not functioning as effectively as it could. The management of travel under the Foreign Service Directives has improved over the past two years.



Assistant Auditor General: Maria Barrados Responsible Auditor: Ellen Shillabeer

### Natural Resources Canada — Energy Efficiency

### Chapter 10 - Main Points

- Natural Resources Canada (NRCan) has been in the business of promoting energy efficiency for many years. The Department has made a fundamental shift in the way it promotes energy efficiency since the mid-1980s when the emphasis was on grant programs. The Department now sees its role as providing leadership and establishing partnerships with others to reduce energy use and to improve energy efficiency. The current focus is on the environmental impacts of energy use.
- 10.2 NRCan's current set of 16 non-research and development energy efficiency initiatives is a key element supporting Canada's commitment to stabilize greenhouse gas emissions at 1990 levels by the year 2000. We found that NRCan's current performance information, on both expectations and achievements, is not sufficient to determine the overall success of its energy efficiency initiatives in terms of the contribution they are making to this stabilization goal.
- 10.3 Departmental expenditures on these 16 initiatives were about \$16.5 million in fiscal year 1995–96. Of the extensive range of policy instruments available to encourage energy efficiency, the Department uses a limited number of instruments, namely selective regulations, information and voluntary action.
- 10.4 The objectives established for many of the energy efficiency initiatives do not provide a clear and concrete expectation of achievement against which the Department can assess its progress and report to Parliament. More work must also be done to measure and assess the overall achievements of its initiatives, including the development of appropriate links to the stabilization goal. The Department is taking steps to improve the quality of its performance information, where cost-effective and feasible.
- 10.5 Opportunities exist to enhance departmental transparency and accountability by better reporting to Parliament on both the performance expectations and performance achievements of the individual initiatives.
- 10.6 The Department has begun to lay the foundation to improve the energy efficiency of its own facilities and fleet of vehicles, and it expects to achieve its current targets by the end of 1997–98.



### **Moving toward Managing for Results**

Assistant Auditor General: Maria Barrados Responsible Auditor: John Mayne

### **Chapter 11 – Main Points**

- 11.1 Meeting Canadians' expectations for cost-effective programs requires that government managers focus on achieving results, especially benefits for Canadians. Basing decisions on results is vital as government reviews its involvement in program delivery and relies more on delivery by third parties. However, we found that managing for results is not widespread in government. In the past, managers have tended to focus on the resources they used, the activities they carried out and the procedures they followed.
- 11.2 A number of recent government initiatives support a focus on results, but concerted effort is required to bring about change. This study sought to support this change by drawing together experience from Canadian government programs and some other jurisdictions that have made significant progress. We selected examples for the study that illustrate different contexts and approaches.
- 11.3 We found cases where managers were measuring performance, communicating results information internally and externally and using the information to improve results. Managers of these programs were able to point to improvements in the key outcomes that they and their ministers were trying to achieve for Canadians. They also found that managing for results improved their management practices, program activities and programs' credibility.
- 11.4 The way managing for results is implemented will vary depending upon the situation of a particular program, but we found a number of consistent themes. Senior management leadership and commitment at all levels of government are particularly important. Effective managers create an organizational climate that encourages managing for results. Also important is agreement on the results to be expected and how to measure them. Although difficult to achieve, such agreement is necessary in order to focus activities and permit an assessment of progress.
- 11.5 Continued progress in managing for results will require ongoing leadership and attention across government. In particular, decision makers need to show that results count, by asking about results and visibly using them to make decisions.



#### Assistant Auditor General: Doug Timmins Responsible Auditor: Nancy Cheng

### **Information Technology: Preparedness for Year 2000**

#### Chapter 12 - Main Points

- 12.1 The "Year 2000" crisis is a global phenomenon. It refers to the potential for systems errors, malfunction and failure as a result of the past practice by computer professionals and the information technology community of representing the year as a two-digit code. Year 2000 can threaten the functioning of government systems that support the delivery of programs and services to the public, as well as internal operations. The costs of dealing with Year 2000 issues have been estimated at as high as US \$600 billion globally. In Canada, total costs are estimated to range from \$30 billion to \$50 billion. The Treasury Board Secretariat has estimated the costs for the Canadian government at \$1 billion.
- Year 2000 has been widely recognized as one of the largest information technology projects. The deadline is immovable and the next millennium is less than three years away. We concluded, as of the end of April 1997, that the rate of progress in mitigating the risks of systems errors and failure has generally been slow, and the residual risks are high. In addition, significant exposures such as competing priorities for systems development and insufficient technical resources could, if they materialize, jeopardize Year 2000 efforts.
- 12.3 The Treasury Board Secretariat has helped to raise awareness across government and facilitated the exchange of views and experiences on Year 2000 efforts. Its Year 2000 project office has been working with departments and agencies to identify and find solutions to common problems. The Secretariat advised us that its submission for funding government-wide initiatives was approved in late June for presentation to the Treasury Board during the summer of 1997.
- 12.4 However, if progress were to continue at the rate we observed at the time of the audit, it would likely be too slow to ensure that the government systems, including those that are critical to supporting major programs and essential services, will be ready in time. We are concerned that systems supporting government programs and services remain at risk. Failure of critical systems could affect public health and safety and essential services to the public. In our view, Year 2000 is a serious threat that requires urgent and aggressive action.
- 12.5 We have recommended that Year 2000 projects, including the development of contingency plans, be ranked among top priorities of departments and agencies. In addition, we have recommended that the Secretariat give high priority to its initiative on overseeing the successful implementation of the most critical systems for the government as a whole. We have also emphasized the need for sustained commitment and support from senior management and for continued engagement of ministers, as appropriate, to address exposures and roadblocks that can derail Year 2000 projects.



### Health Canada - First Nations Health

Assistant Auditor General: Maria Barrados Responsible Auditor: Ronnie Campbell

#### **Chapter 13 – Main Points**

- 13.1 First Nations health is significantly worse than that of the general Canadian population. The health status of the First Nations population is affected by poor socio-economic conditions, which present considerable challenges to Health Canada and others who deliver health services to First Nations.
- 13.2 The management of community health programs through separate contribution agreements needs improvement. Health Canada does not monitor contribution agreements effectively. Clear and detailed descriptions of the programs to be undertaken in specific communities were often not available. In about two thirds of the agreements we examined, the Department did not have the required information on the activities carried out in the communities.
- 13.3 A sound framework for the transfer of health programs to community control has been developed and has allowed First Nations to start managing their own health programs. However, this framework has not yet been fully implemented. Required reports seldom provide performance information related to health, and requirements for program audits were not adequately met. In addition, the evaluation of the transfer initiative did not include any measures of changes to health.
- 13.4 Significant weaknesses exist in the management of pharmacy benefits under the Non-Insured Health Benefits program, allowing clients to access extremely high levels of prescription drugs. Although the Department has been aware of the problem of prescription drug misuse for almost 10 years, we found no evidence that the ease of access to prescription drugs has changed in any significant way. Despite the seriousness of the problem and numerous reports of prescription drug addiction and prescription-drug-related deaths in First Nations communities, action to intervene has been slow.
- 13.5 In an attempt to address program weaknesses, Health Canada is currently testing a point-of-service system that is to be fully implemented in the fall of 1997. Such a system has the potential to be a key mechanism in the control of drug use and the administration of pharmacy benefits. However, the Department needs to provide a clear protocol to guide intervention and will need to closely monitor pharmacists' overrides of warning messages.
- 13.6 Dental care providers tend to provide services up to the established frequencies and limits rather than based on needs, resulting in overservicing of some First Nations clients. The Department has piloted a predetermination process and plans to implement this needs-based model for the dental benefit nationally.
- 13.7 The Department has successfully implemented some cost management initiatives, resulting in a reduction in the rate of increase in direct program costs for non-insured health benefits from 22.9 percent in 1990–91 to 5.6 percent in 1995–96. However, further savings can be achieved in other areas, including dispensing fees and medical transportation. In addition, management needs to strengthen verification of claims and audits of providers.



Assistant Auditor General: Don Young Responsible Auditor: Doug Timmins

## Fisheries and Oceans Canada — Sustainable Fisheries Framework: Atlantic Groundfish

#### Chapter 14 - Main Points

- 14.1 Although many Atlantic fisheries continue to thrive, the 1990s saw the collapse of most of Atlantic Canada's commercial groundfish fishery. As Atlantic groundfish stocks headed toward their lowest levels in recorded history, Fisheries and Oceans Canada and the Northwest Atlantic Fisheries Organization progressively closed most of the commercial Atlantic groundfish fisheries and significantly reduced the total allowable catch for others.
- 14.2 To address this situation, the federal government implemented income support and adjustment programs to help those dependent on the fishery and also undertook specific initiatives designed to improve fisheries resource management and bring industry capacity into line with the size of the groundfish resource. The government will have spent over \$3 billion of new and reallocated program funds this decade. While some progress has been made, many of the critical problems related to the fishery remain, particularly the excess capacity to catch fish, and the number of people relying on the fishery and associated income support programs remains high.
- 14.3 Managing the seasonal and labour-intensive Atlantic groundfish fishery on a sustainable basis is extremely challenging. Decision makers face the imprecision inherent in determining the status of fish stocks as well as pressure from fishers, plant workers and industry to maintain access to and income from the fishery, access to employment insurance during the off-season, and access to alternative forms of government support in times of crises.
- Although Fisheries and Oceans Canada has stated principles for a fishery of the future, measurable indicators to assess progress are required. While progress has been made in reducing the number of groundfish licences, excess harvesting capacity in terms of an ability to kill fish remains. The Department needs to further its efforts to identify the extent of the contribution of environmental and other factors to the decline of the groundfish. In addition, fisheries management practices need to be further improved to better manage the risks and uncertainty inherent in managing the fishery as a sustainable resource. A precautionary approach to conservation must be the priority and unsustainable fishing practices need to be addressed.
- 14.5 The Department has stated that its mandate is conservation of the fishery resource base and that this is implied in current legislation. Nevertheless, we found no clearly stated national policy for sustainable fisheries. In addition, performance indicators need to be further developed and planning and performance reporting processes need to be better integrated.
- 14.6 The deep cultural attachment to the groundfish fishery has been reinforced by several decades of government subsidies. This has resulted in substantial pressure on government to maintain the status quo; that is, to use the fish as a basis for providing income support. Successive governments have provided increasing income support for the people living in the remote coastal communities in Atlantic Canada. This reaction to social pressures has not resulted in an economically viable fishery. In fact, the absence of the fishery has revealed, more clearly than ever before, the substantial reliance on income support by a significant portion of the Atlantic fishing industry. This reliance makes dealing with already complex problems of overcapacity and fisheries management more difficult.

### Chapter 14 - Main Points (cont'd)

14.7 With the future of groundfish uncertain, the problems remain critical. In our view, the Department, in conjunction with the government, needs to take further steps to implement the principle that "conservation is the paramount priority", as well as to continue to pursue efforts to ensure that resource management decisions reflect the principle that "harvesting capacity must match the available resource base." At the same time, the government must deal with difficult socio-economic decisions about the future of those whom the fishery cannot support, if fisheries management is to ensure an ecologically and economically sustainable fishery.



Assistant Auditor General: Don Young Responsible Auditor: Doug Timmins

## Fisheries and Oceans Canada — Rationalization and Renewal: Atlantic Groundfish

#### **Chapter 15 - Main Points**

- 15.1 The Department has identified the need for fundamental changes in the fishery, in its relationship with the industry and in its management practices, in order to achieve a sustainable fishery. Since 1992, the Department has moved to reduce the number of groundfish licences, made changes in the management of the fishery and is developing new arrangements for the sharing of responsibility for managing the fishery in the future.
- 15.2 A key objective of The Atlantic Groundfish Strategy (TAGS) and other initiatives is to reduce existing harvesting capacity by at least 50 percent over the long term. The allocation of funds to reduce harvesting capacity under TAGS, originally \$300 million, was subsequently reduced to \$97 million. The Department focussed its capacity reduction efforts on the removal of licences and is paying about \$88 million of this amount to fishers to retire 545 groundfish licences and 266 fishers without licences. The Department would have been able to reduce more licences had the funds allocated to licence buyback and retirement not been reduced by almost \$200 million. A further 2,626 licences have been identified for eventual removal from the fishery once the current licence holders exit the fishery. Assuming that the Department is able to effect the removal of these licences, it will have removed approximately 23 percent of the groundfish licences in place at the time TAGS was introduced. However, this will still leave about 10,000 groundfish licences, a portion of which represents the groundfish harvesters who historically caught most of the fish. Thus, significant overcapacity, in terms of the ability to catch fish, will remain.
- 15.3 The Department has made many changes to its groundfish management activities since 1992, which it believes represent improvements over practices that were previously in place. These changes include the introduction of conservation measures in conservation harvesting plans and the integration of fisher knowledge in groundfish management. Nonetheless, fisheries management practices need to be further improved to ensure the sustainability of the resource base.
- 15.4 Past management practices were introduced with the intention of ensuring conservation. For a variety of reasons, these practices were not successful when implemented. To deal with the inherent uncertainty of the resource base, a precautionary approach is required as a basis for decisions. In addition, further improvements are necessary in catch monitoring, and enforcement must become a more important and active component of groundfish management.
- 15.5 While implementing Program Review cutbacks, the Department is also reorganizing. Its long-term strategy is to transfer more fisheries management responsibilities to the groundfish industry. The transfer has not yet occurred, in part because of legislative limitations but also due to the inability of some segments of the industry to accept greater responsibility. In the absence of assurance that industry can and will accept increased responsibility, we are concerned about the potential impacts on conservation as a result of reductions and planned changes to the Department's groundfish management activities.



Assistant Auditor General: David Rattray Responsible Auditor: Louis Lalonde

### Human Resources Development Canada — The Atlantic Groundfish Strategy

### **Chapter 16 - Main Points**

- 16.1 The accountability framework for The Atlantic Groundfish Strategy (TAGS) has significant weaknesses that have had an impact on the value obtained for money spent. These include the following:
  - the responsibilities of the organizations charged with developing and implementing TAGS were not clearly defined or agreed upon in a memorandum of understanding;
  - no overall strategic plan was established to identify and schedule the activities of the organizations responsible for implementing TAGS and to determine the indicators and performance expectations to be used, monitored and reported on;
  - no formal co-ordination mechanism was envisaged, even though TAGS involved joint activities because of its interdependent components; and
  - the information submitted to Parliament did not make it possible to determine progress toward TAGS
    objectives of restructuring Atlantic Canada's fishing industry to make it economically viable and
    environmentally sustainable.
- 16.2 The timetable for developing an initiative as important as TAGS was unrealistic. It was not geared to the restructuring of the industry. The funds (\$1.9 billion) were distributed according to a preliminary strategy, but subsequently had to be reallocated among TAGS components because of major changes to the initial strategy and because forecasts of the eligible population had been too low.
- 16.3 The information needed to assess participant eligibility was not always available. Because clear, accurate information was difficult to obtain, decisions were made on the basis of incomplete information that did not meet the requirements of TAGS eligibility criteria. Errors in applying the criteria were noted from the time TAGS was implemented, and many corrections had to be made. Varying interpretations of the eligibility criteria resulted in different treatment of participants in various areas.
- 16.4 The results of the labour adjustment component of TAGS will not be known. Program evaluation efforts were abandoned when the Strategy changed from an active participation strategy to a passive one. We are concerned that the information gathered and the lessons learned during an initial evaluation of program development and implementation may be lost and that results will not be accounted for.
- 16.5 The government proposes to review the longer-term issues arising from the elimination of TAGS foreseen in May 1998. We urge the government to examine carefully the consequences and impacts of the decisions made under TAGS in order to benefit from the valuable lessons that can be learned.



Assistant Auditor General: David Rattray Responsible Auditor: Louis Lalonde

### **Human Resources Development Canada**

### A Critical Transition toward Results-Based Management

#### Chapter 17 - Main Points

- 17.1 Human Resources Development Canada has begun a transition toward results-based management. To this end, it has instituted a number of initiatives, including the publication of its *Results-Based Accountability*Framework, consultation with employees, and establishment of performance measures for major activities. The Department has also extended the application of these performance measures to activities carried out jointly with its partners. Overall, the roles and responsibilities of the partners are well defined. Also, the new Labour Market Development Agreements generally include the elements that are essential to good accountability among partners.
- 17.2 Certain steps remain to be taken to complete this transition. The Department needs to strike a suitable balance among the effectiveness, cost and quality of its services; at present, it does not analyze costs along with key performance indicators. It also needs to link performance to the consequences of having met or not met expectations.
- 17.3 The support of the employees working in the Human Resource Centres of Canada is essential if the Department is to successfully implement the Framework. The credibility of data on certain programs needs to be resolved within a reasonable timeframe. Employees need to have confidence in the reliability of the information, or the entire initiative may be jeopardized.
- 17.4 The information that Parliament receives on actual results compared with stated objectives is incomplete. We believe that, given the importance and the special nature of the Employment Insurance Account, it would be beneficial for Parliament if information were all in one place. There is no distinct report containing financial information on performance. Such a report could include, among other things, performance information, results achieved and actuarial analyses, which at present are not tabled in Parliament. Tabling actuarial analyses would improve the transparency and the availability of the data necessary for establishing an adequate reserve in the Account.
- 17.5 Our audit of two activities, management of accounts receivable and protection of program integrity, confirmed that progress has been made in results-based management. The Department has made major efforts since 1994 to integrate and harmonize the management of accounts receivable for all its programs. However, the quality of the portfolio of accounts receivable has deteriorated over the last five years. The performance of accounts receivable could be better measured, targeted and analyzed in order to assess the cost effectiveness of the Department's collection activities.
- 17.6 In activities for the protection of program integrity, results-based management is most advanced in the Employment Insurance Program. Since 1992, the Investigation and Control Directorate has been using information on results to negotiate resource levels and to set the national savings expectation. However, the other activities for the protection of public funds could be better measured and targeted in order to manage for results.



Assistant Auditor General: Shahid Minto Responsible Auditor: Jim Ralston

### Revenue Canada and Department of Finance

## Fostering Improvement in Tax and Trade Administration: Follow-up of Previous Audits

### Chapter 18 - Main Points

- 18.1 Over the last few years, Revenue Canada and the Department of Finance have made many changes to systems, procedures and practices that have strengthened tax and trade administration. Some of these changes are a result of the departments' own commitments to improving their operations; some changes were in response to reports of parliamentary committees; and other changes were made to respond to our observations and recommendations in reports on our value-for-money audits.
- 18.2 Our follow-up on previous recommendations found that progress is being made on a number of fronts. We encourage the two departments to continue their efforts to address the areas where concerns remain.
- 18.3 Revenue Canada is now making available more income tax advance rulings and GST rulings and interpretations and has taken steps to improve its documentation of key decisions leading to advance rulings.
- 18.4 The Department continues to have difficulty completing reviews of income tax returns selected for scrutiny during the annual processing program. It has expanded the number of processing review fields it is tracking, and it is maintaining year-to-year consistency in the fields chosen. Data quality improvements are expected to improve Revenue Canada's ability to analyze and evaluate the performance of the processing program.
- 18.5 The integration of collections for income tax, GST and customs and excise, the establishment of a risk analysis system, and changes in collection procedures are expected to enhance the collections function. A new procedure for early contact on large delinquent accounts is proving to be very productive, bringing in \$181 million in 1996–97. Revenue Canada has published guidance on applying the Fairness Package and has established a system to track its use.
- 18.6 The Department is shifting from an audit selection strategy focussed on identifying individual taxpayers to one focussed on industry sectors. It is also trying to take advantage of administrative consolidation to increase audit visibility and coverage. However, the Department still does not have a verification program aimed at RRSP contributions. Through improved reporting of social insurance numbers and sharing of data with other federal departments and provincial governments, Revenue Canada is improving its ability to pursue income tax non-filers and GST non-registrants.
- 18.7 It has developed a process to manage the risk associated with complex tax legislation, which can be a source of revenue leakage if provisions can be used for tax avoidance. It has also improved the collection and reporting of performance data across a number of its programs.
- 18.8 In trade administration, Revenue Canada's periodic verification initiative and country-of-origin audit program are expanding. The Department's small importer strategy has been formulated and implementation started.
- 18.9 With respect to tax assistance for retirement savings and income tax incentives for research and development, the Department of Finance has taken steps to provide improved estimates of program costs and to provide evaluations of program effectiveness. It has also taken steps to correct technical deficiencies in the law related to foreign affiliates and taxpayer migration.



Assistant Auditor General: Shahid Minto Responsible Auditor: Hugh A. McRoberts

### **Transport Canada**

### The Commercialization of the Air Navigation System

### Chapter 19 - Main Points

- 19.1 On 31 October 1996, in exchange for a payment to the Crown of \$1.5 billion, a substantial legislated monopoly in perpetuity for the operation of Canada's civil air navigation system was transferred to NAV CANADA, a private not-for-profit corporation created in 1995 to receive and operate the system.
- 19.2 Transport Canada did not fully segregate the air navigation system elements that were to be privatized before entering the sale process. It developed a number of estimates of the system's value, but did not obtain a formal valuation opinion from a qualified independent professional. Nor did it obtain any external assurance as to the reliability of the financial information and results on which it was basing its decision on the sale.
- 19.3 The Department used both going-concern and net book value approaches to valuing the system. Although the air navigation system was sold as a going concern, the Department reconciled the "purchase price" to a valuation of the system based on an "adjusted" net book value. In our opinion, that was not an appropriate method of valuation in these circumstances. "Due regard to economy" does not mean that the purchase price must equal the valuation; but it does mean that the value must be known and that any difference should be explained.
- 19.4 The government had directed Transport Canada to receive fair market value for the transfer of the air navigation system to a not-for-profit entity; the Department agreed to transfer the air navigation system for a negotiated payment of \$ 1.5 billion, approximately \$1 billion less than the entity's going-concern value of \$2.4 billion estimated by the Department's financial advisors.
- 19.5 The costs of transferring the air navigation system to the not-for-profit corporation were significant. Nevertheless, Transport Canada did not identify separately the cost associated with pension transfers, currently estimated at between \$145 million and \$275 million.
- 19.6 We are concerned about the Department's lack of justification for entering into a sole-source contract with its principal financial advisor.
- 19.7 We audited some elements of Transport Canada's oversight of the air navigation system. We did not audit the safety of the system and provide no opinion on it. We found that the legal and regulatory foundations for the regulation of NAV CANADA have been established and the Department has very recently approved its Policy Framework for the Safety Oversight of Canada's Air Navigation System. Nonetheless, there are important matters of risk, data, and audit and inspection that must be resolved before Transport Canada's regulatory regime can be said to be fully operating. The Department is aware of these issues and is in the process of drafting action plans and taking steps to deal with them.
- 19.8 We are concerned that until Transport Canada makes significant progress in implementing its performance-based regulatory regime, it will not be in a position to have full assurance of NAV CANADA's compliance with the safety regulations governing the air navigation system. Although it has indicated that it would be aware of any problems that existed, the Department has yet to conduct its first audit or inspection of NAV CANADA's operations.



Assistant Auditor General: Shahid Minto Responsible Auditor: Alain Boucher

### **Public Works and Government Services Canada**

### Privatization of the Canada Communication Group

### **Chapter 20 - Main Points**

- **20.1** The government made the decision to privatize the Canada Communication Group (CCG) and approved the sale process in April 1996.
- 20.2 The government's privatization objectives were to obtain best value for the sale of CCG, with minimum risk and liability for the government, and to minimize the impact on the printing industry while securing job continuity in the private sector for as many of its employees as possible. The government did not offer any guarantee of future business. However, to sell under the best conditions possible, it offered to prospective purchasers a business advantage, for a period of five years, in the form of privileged access to all government departments and agencies.
- 20.3 CCG was sold through a competitive sale process. The invitation to submit bids was made through the Open Bidding System. We found that the process was indeed open and attracted a significant number of bidders from the printing industry. The evaluation of offers received was conducted in accordance with the stated process and resulted in a proper evaluation of the bids. We therefore concluded that the offer submitted by the successful bidder, St. Joseph Corporation, represented the best value that could be obtained at that time under the conditions of sale specified by the government.
- 20.4 We found that there was satisfactory control over the transfer of assets and liabilities to the purchaser and that adequate revenue and expense cut-off procedures were used at the closing of the transaction.
- 20.5 CCG estimated the net cost for the divestiture of the organization at \$45.3 million. However, certain costs to be absorbed by other federal government entities as a result of the privatization were not included in this amount. Those costs included the waiving of about \$20 million to \$25 million of pension penalty costs for those who benefited from early retirement, and costs related to pension protection. The inclusion of the pension penalty costs alone would have brought the net cost of privatization to between \$65 million and \$70 million. In addition, the pension penalty costs were not included in CCG's analyses of the various future options for the organization. The inclusion of this cost element could have had an impact on the results of the cost/benefit analyses conducted.
- **20.6** We tested a sample of cases related to the Work Force Adjustment program established for CCG and found that they all complied with the conditions of the program. As well, we determined that the CCG program was comparable with the programs of departments and agencies subject to the Treasury Board Work Force Adjustment Directive.
- **20.7** We consider that the privatization process was well managed within the parameters set by the government; however, it is too early to predict whether this privatization will be a success in the longer term. Fairness to prospective purchasers and employees and jobs for employees were important criteria for the government, but resulted in costs (such as Work Force Adjustment costs) exceeding those that would have been incurred in a private sector transaction.



Assistant Auditor General: David Rattray Responsible Auditor: Vinod Sahgal

## Household Goods Removal Services of the Federal Government

### **Chapter 21 – Main Points**

- 21.1 This audit was conducted in response to a request from the Standing Committee on Public Accounts.
- 21.2 Some 19,000 employees were moved by the federal government in 1995–96 one quarter of all moves by the van lines in Canada and several times more than the next-largest Canadian employer. The federal government is well placed to obtain favourable terms from the moving industry.
- 21.3 The tariff paid by the government has been falling significantly in recent years. A number of factors have contributed to this decline, including introduction of the competitive bidding process in 1992. The tariff is below that paid by all but a few Canadian organizations procuring similar services. Nevertheless, there are a number of areas that warrant action.
- 21.4 The level of satisfaction of government employees with the quality of service was below that of relocated employees of other Canadian organizations. One reason is that emphasis has been placed mainly on obtaining the lowest price, not the "best value" a concept based on both price and quality as measured in terms of employee satisfaction.
- 21.5 The existing contracting arrangements, which incorporate a formula for allocating business among qualified bidders, have proved to be brittle. For two consecutive years, problems have arisen in either the tendering or the implementation phase.
- A potential exists for overcharging due to "weight bumping" as well as excessive weight for other reasons. The inherent risk that billed weights can be manipulated is high, yet controls to prevent this are weak.
- 21.7 The number and cost of personnel employed to administer household goods removal activities have not been falling despite the significant decline in volume of moves. Potential efficiency gains have been identified that could achieve savings of an estimated \$1.5 million yearly. Enhanced use of information technology, centralization, simplification of rules and regulations, and elimination of unproductive activities are some areas that need action.
- 21.8 There are other areas of potential cost savings. For instance, yearly savings of \$1 million to \$2 million in operating costs may be possible if a feasible alternative to weighing shipments can be found for pricing moves.
- 21.9 The employment of several former senior National Defence officials by the moving industry has created a perception of non-arm's-length relationships. Further, a specific situation being looked at by National Defence may determine whether or not any abuse actually occurred.

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# Les services de déménagement d'articles de ménage au sein de l'administration fédérale



Vérificateur général adjoint : David Rattray Vérificateur responsable : Vinod Sahgal

#### Chapitre 21 – Points saillants

21.1 La présente vérification a été exécutée en réponse à une demande du Comité permanent des comptes publics.

21.2 En 1995–1996, l'administration fédérale a été responsable du déménagement de quelque 19 000 employés — ce qui représente le quart de tous les déménagements effectués par les sociétés de transport au Canada et plusieurs fois le nombre effectué pour le compte du second employeur canadien en importance. L'administration fédérale est bien placée pour obtenir des conditions favorables de la part de l'industrie du déménagement.

Le tarif payé par l'administration fédérale a chuté de façon marquée au cours des dernières années.

Un certain nombre de facteurs ont contribué à cette diminution, notamment l'introduction du processus d'appel d'offres en 1992. Le tarif est, à quelques exceptions près, inférieur à celui que paient toutes les autres organisations canadiennes qui se procurent des services semblables. Méanmoins, certains secteurs justifient une intervention.

21.4 Le niveau de satisfaction des employés fédéraux à l'égard de la qualité des services était inférieur à celui des employés d'autres organisations canadiennes qui avaient été réinstallés. L'une des raisons qui expliquent cet était est que l'accent a été mis surtout sur l'obtention du prix le plus bas, pas de la «valeur optimale » — un concept qui repose tant sur le prix que sur la qualité et qui est mesuré en fonction de la satisfaction des employés.

Les ententes contractuelles existantes, qui incorporent une formule de répartition des contrats entre les soumissionnaires qualifiés, se sont révélées fragiles. Pendant deux années de suite, des problèmes ont surgi soit à la phase de l'appel d'offres, soit à la phase de la mise en oeuvre.

21.6 Il se peut qu'il y ait surévaluation du poids soit parce que les poids sont « altérés », soit pour d'autres raisons. Le risque inhérent que les poids facturés soient trafiqués est élevé, et les contrôles à cet égard sont faibles.

Le nombre d'employés chargés de l'administration des activités de déménagement d'articles de ménagements. et les coûts liés à ces employés n'ont pas diminué malgré une baisse considérable du nombre de déménagements. On a recensé des possibilités de gains d'efficience qui pourraient donner lieu à des économies estimatives de l'5 million de dollars par année. L'utilisation accrue des technologies de l'information, la centralisation, la simplification des règles et des règlements et l'élimination des activités non productives sont des secteurs où il faut agir.

Des possibilités d'économies existent dans d'autres secteurs. Par exemple, des économies annuelles de un ou deux millions de dollars pourraient être réalisées sur les coûts de fonctionnement si l'on pouvait trouver une autre méthode réalisable en remplacement de la pesée des expéditions pour fixer le prix des déménagements.

L'embauche de plusieurs anciens cadres supérieurs de la Défense nationale par l'industrie du déménagement a créé l'impression qu'il existe une relation avec lien de dépendance. La Défense nationale étudie un cas précis, ce qui pourrait permettre de déterminer s'il y a eu véritablement abus.

## Travaux publics et Services gouvernementaux Canada

La privatisation du Groupe Communication Canada



Vérificateur général adjoint : Shahid Minto Vérificateur responsable : Alain Boucher

#### Chapitre 20 - Points saillants

**20.1** Le gouvernement a pris la décision de privatiser le Groupe Communication Canada (GCC) et a approuvé le processus de vente en avril 1996.

Do.2 Les objectifs de privatisation du gouvernement consistaient à obtenir la meilleure valeur pour la vente du GCC tout en réduisant au minimum les risques et obligations pour le gouvernement, et à minimiser l'incidence de cette vente sur l'industrie de l'imprimerie tout en assurant la continuité d'emploi dans le secteur privé pour le plus grand nombre possible d'employés du GCC. Le gouvernement n'a pas garanti de marchés futurs. Toutefois, pour que la vente soit effectuée dans les meilleures conditions possibles, il a offert aux acheteurs éventuels un avantage sous forme d'accès privilégié à tous les ministères et organismes gouvernementaux, et ce pendant une période de cinq ans.

Do.3 Le gouvernement a vendu le GCC selon un processus de vente concurrentiel en émettant un appel d'offres à l'aide du Système d'invitations ouvertes à soumissionner. Nous avons constaté que le processus a été vraiment ouvert et qu'il a attiré un nombre important de soumissionnaires de l'industrie de l'imprimerie. L'évaluation des offres reçues s'est conformée au processus établi et a donné lieu à une analyse adéquate des soumissions. Nous avons donc conclu que l'offre du soumissionnaire retenu, la St. Joseph Corporation, représentait la meilleure valeur que le gouvernement pouvait obtenir à ce moment-là selon les conditions de vente qu'il avait précisées.

20.4 Nous avons constaté qu'un contrôle satisfaisant a régi le transfert des actifs et passifs à l'acheteur et que des procédures adéquates ont assuré l'arrêté des comptes de revenus et dépenses à la date de clôture de la transaction.

Certains coûts que devaient absorber d'autres entités fédérales à la suite de la privatisation n'étaient pas inclus dans cette somme. Ces coûts comprenaient l'annulation des coûts de réduction des prestations de retraite, dont la valeur se situait entre 20 millions et 25 millions de dollars pour les personnes qui se sont prévalues de l'option de prestations de retraite anticipée, et les coûts liés à la protection du régime de retraite. L'ajout des coûts relatifs à la réduction des prestations de retraite anticipée, et les coûts liés à la protection du régime de retraite. L'ajout des coûts relatifs à la réduction des prestations et 70 millions de dollars. En outre, les coûts liés à la réduction des prestations de retraite ne figuraient 65 millions et 70 millions de dollars. En outre, les coûts liés à la réduction des prestations de retraite ne figuraient pas dans les analyses effectuées par le GCC concernant les diverses options qui s'offraient à lui. L'ajout de cet élément de coût aurait pu avoir une incidence sur les résultats des analyses coûts-avantages.

**20.6** Nous avons vérifié un échantillon de cas liés au programme de réaménagement de l'effectif mis sur pied pour le GCC et avons constaté qu'ils répondaient tous aux conditions du programme. De plus, nous avons établi que ce dernier se comparait aux programmes des ministères et des organismes assujettis à la Directive sur le réaménagement des effectifs du Conseil du Trésor.

Nous considérons que le processus de privatisation a été bien géré en fonction des paramètres établis par le gouvernement; toutefois, il est trop tôt pour dire si cette privatisation sera un succès à long terme. L'équité à l'endroit du personnel et des acheteurs éventuels ainsi que les emplois étaient des critères importants pour le gouvernement, mais ils ont entraîné des coûts (relatifs au programme de réaménagement de l'effectif, par gouvernement, mais ils ont entraîné des coûts (relatifs au programme de réaménagement de l'effectif, par exemple) supérieurs à ceux qui auraient découlé d'une telle transaction dans le secteur privé.

### Chapitre 19 - Points saillants (suite)

Tant qu'il n'aura pas progressé dans la mise en oeuvre de son régime réglementaire axé sur le rendement, Transports Canada ne sera pas en mesure d'obtenir l'entière assurance que NAV CANADA respecte les règlements en malière de sécurité régissant le système de navigation aérienne. Cette situation nous préoccupe. Même s'il a déclaré qu'il serait au courant de tout problème le cas échéant, le Ministère n'a pas encore réalisé sa première vérification ni sa première inspection des activités de NAV CANADA.

## Transports Canada

# La commercialisation du système de navigation aérienne



Vérificateur général adjoint : Shahid Minto Vérificateur responsable : Hugh A. McRoberts

#### Chapitre 19 - Points saillants

**19.1** Le 31 octobre 1996, un monopole important, octroyé à perpétuité par voie législative en vue de l'exploitation du système de navigation aérienne civile du Canada, a été cédé à NAV CANADA, société fermée sans but lucratif créée en 1995 pour acquérir et exploiter le système, contre un paiement de 1,5 milliard de dollars versé à l'État.

19.2 Transports Canada n'a pas clairement séparé les éléments du système de navigation aérienne qui devatent être privatisés avant de lancer le processus de vente. Il a préparé un certain nombre d'estimations de la valeur du système, mais n'a pas obtenu d'opinion officielle sur l'évaluation du système auprès d'un professionnel indépendant qualifié. Il n'a pas non plus obtenu d'assurance indépendante quant à la fiabilité de l'information et des résultats financiers sur lesquels il fondait sa décision de vente.

19.3 Le Ministère s'est servi des méthodes de la valeur d'exploitation et de la valeur comptable nette pour évaluer le système. Bien que le système de navigation aérienne ait été vendu sur la présomption de la continuité de l'exploitation, le Ministère a rapproché le « prix d'achat » d'une évaluation du système fondée sur une valeur comptable nette « ajustée ». À notre avis, ce n'était pas une méthode adéquate d'évaluation dans les circonstances. « Le souci de l'économie » ne veut pas dire que le prix d'achat doit correspondre exactement à l'évaluation, mais cela implique que la valeur doit être connue et que toute différence doit être expliquée.

19.4 Le gouvernement avait donné instruction à Transports Canada d'obtenir la juste valeur marchande pour la cession du système de navigation aérienne à une société sans but lucraitf; le Ministère a consenti à céder le système de navigation aérienne, après négociation, contre un paiement de 1,5 milliard de dollars, soit environ un milliard de dollars de moins que la valeur d'exploitation, estimée à 2,4 milliards de dollars par les conseillers financiers du Ministère.

19.5 Les coûts de cession du système de navigation aérienne à la société sans but lucratif ont été importants. Néanmoins, Transports Canada n'a pas communiqué séparément le coût associé au transfert des pensions, dont la valeur estimative actuelle s'établit entre 145 et 275 millions de dollars.

19.6 Nous sommes préoccupés du fait que le Ministère n'ait pas justifié la passation d'un marché à fournisseur unique avec son principal conseiller financier.

Transports Canada. Nous n'avons pas vérifié la sécurité du système de navigation aérienne qu'exerce fondements législatifs et réglementaires pour la réglementation de NAV CANADA, avons-nous constalé, ont été établis et le Ministère a approuvé récemment ses Politiques du contrôle de la sécurité du système de navigation aérienne du Canada. Néanmoins, il reste d'importantes questions liées aux risques, aux données, à la vérification et à l'inspection qui doivent être réglées avant que le réglementaire de Transports Canada soit considéré et à l'inspection qui doivent être réglées avant que le réglementaire de Transports Canada soit considéré comme étant pleinement opérationnel. Le Ministère en est conscient et est en train de préparer des plans d'action et de prendre des mesures pour les mettre en oeuvre.

#### Chapitre 18 - Points saillants (suite)

18.8 Dans l'application de la politique commerciale, l'initiative de vérification périodique de Revenu Canada et le programme de vérification du pays d'origine prennent de l'ampleur. La stratégie du Ministère, dans le cas des petits importateurs, a été énoncée et son instauration a été amorcée.

Quant à l'aide fiscale à l'épargne-retraite et aux encouragements fiscaux à la recherche et au développement, le ministère des Finances a pris des mesures dans le but de fournir de meilleures estimations des coûts des programmes et des évaluations de leur efficacité. Il a aussi pris des mesures qui doivent corriger, dans la loi, des anomalies techniques qui touchent les sociétés étrangères affiliées et les contribuables qui quittent le pays.

## Revenu Canada et le ministère des Finances

L'amélioration de l'administration du régime fiscal et des politiques commerciales : suivi de vérifications antérieures



Vérificateur général adjoint : Shahid Minto Vérificateur responsable : Jim Ralston

### Chapitre 18 - Points saillants

18.1 Au cours des dernières années, Revenu Canada et le ministère des Finances ont apporté à leurs systèmes, procédés et pratiques de nombreux changements qui ont renforcé l'administration du régime fiscal et des politiques commerciales. Certains de ces changements sont le résultat de l'engagement pris par ces ministères d'améliorer leurs opérations; d'autres survenaient en réponse à des rapports de comités parlementaires, tandis que d'autres encore faisaient suite aux observations et aux recommandations formulées dans nos rapports de vérification de l'optimisation des ressources.

18.2 Notre suivi des recommandations antérieures a révélé des progrès sur plusieurs terrains. Nous encourageons les deux ministères à poursuivre leurs efforts pour s'attaquer aux domaines où persistent des préoccupations.

18.3 Revenu Canada transmet maintenant un plus grand nombre de décisions anticipées en matière d'impôt sur le revenu et de décisions et d'interprétations en matière de taxe sur les produits et services (TPS), et il a pris des dispositions en vue d'améliorer sa documentation qui étaye la prise des décisions clès qui débouchent sur des décisions anticipées.

18.4 Le Ministère continue d'éprouver de la difficulté à mener à terme ses examens des déclarations de revenus sélectionnées pour une étude minutieuse, pendant le programme de traitement annuel. Il a accru le nombre de zones sujettes à une revue du traitement et il maintient, d'une année à l'autre, l'uniformité dans les zones choisies. On s'attend que des améliorations de la qualité des données mettent Revenu Canada plus à même d'analyser et d'évaluer le rendement du programme de traitement.

18.5 L'intégration du recouvrement de l'impôt sur le revenu, de la TPS et des douanes et de l'accise, l'établissement d'un système d'analyse des risques, et des modifications des procédures de recouvrement devraient rehausser la fonction de recouvrement. Une nouvelle procédure pour une communication précoce au sujet des gros comptes en souffrance s'avère des plus productives, car elle a rapporté 181 millions de dollars, en sujet des gros comptes en souffrance s'avère des plus productives, car elle a rapporté 181 millions de dollars, en de son utilisation.

18.6 Le Ministère est en voie de passer d'une stratégie de sélection pour la vérification, axée sur l'identification de particuliers, à une stratégie fondée sur les secteurs industriels. Il tente aussi de tirer profit de l'unification administrative de manière à accroître la visibilité et l'étendue de la vérification. Toutefois, le Ministère n'a toujours pas de programme de vérification visant les cotisations aux REER. Grâce à une meilleure déclaration des numéros d'assurance sociale et au partage des données avec d'autres ministères fédéraux et déclaration des numéros d'assurance sociale et au partage des données avec d'autres ministères fédéraux et provinciaux. Revenu Canada améliore sa capacité de poursuivre les non-déclarants de l'impôt sur le revenu et les

18.7 Le Ministère a mis au point un processus de gestion des risques liés aux dispositions fiscales complexes qui peuvent lui faire perdre des recettes, lorsque ces dispositions servent à l'évitement fiscal. Il a également amélioré la collecte et la transmission des données sur le rendement d'un certain nombre de ses programmes.

non-inscrits de la TPS.

# Développement des ressources humaines Canada

Virage décisif vers une gestion axée sur les résultats



Vérificaleur général adjoint : David Rattray Vérificaleur responsable : Louis Lalonde

#### Chapitre 17 - Points saillants

17.1 Le Ministère a amorcé un virage vers une gestion orientée sur les résultats. Il a entrepris plusieurs initiatives : la publication du Cadre de responsabilité axée sur les résultats (le Cadre), une consultation avec ses employés et l'établissement de mesures de rendement pour les principales activités. De plus, le Ministère a étendu l'application de ces mesures aux activités qu'il entreprend avec des partenaires. Les rôles et les responsabilités de ceux-ci sont, dans l'ensemble, bien définis. De plus, les nouvelles ententes relatives au développement du marché du travail incluent généralement les éléments essentiels à une bonne reddition des comptes entre ces partenaires.

Certaines étapes restent à franchir pour compléter ce virage. Développement des ressources humaines Canada (DRHC) devra trouver l'équilibre qui convient entre l'efficacité, le coût et la qualité des services. À l'heure actuelle, les coûts ne sont pas analysés par rapport aux indicateurs principaux. Il faut aussi faire un lien l'entre le rendement et les conséquences d'avoir répondu ou non aux attentes.

17.3 Le Ministère a besoin de l'appui des employés qui travaillent dans les centres de ressources humaines du Canada (CRHC) s'il veut réussir la mise en oeuvre du Cadre. Il faudrait que les problèmes de crédibilité des données de certains programmes soient réglés dans les plus brefs délais afin que les employés aient confiance en l'information fournie, sans quoi l'ensemble de l'initiative peut être en péril.

I7.4 L'information que reçoit le Parlement sur les résultats atteints par rapport aux objectifs fixés est incomplète. À cause de l'importance et de la nature spéciale du Compte d'assurance-emploi, le Parlement gagnerait à ce que l'information soit regroupée en un seul endroit. Il n'y a pas de rapport distinct qui regroupe l'information financière sur le rendement. Un tel rapport pourrait inclure, entre autres, des renseignements sur le rendement, les résultats atteints et les analyses actuarielles au Parlement améliorerait la transparence et rendrait déposées au Parlement. Le dépôt des analyses actuarielles au Parlement améliorerait la transparence et rendrait disponibles les données nécessaires pour établir une réserve suffisante dans le Compte d'assurance-emploi.

Deux activités que nous avons vérifiées, soit la gestion des comptes débiteurs et la protection de l'intégrité des programmes, confirment l'avancement dans la gestion axée sur les résultats. Depuis 1994, le Ministère a déployé de grands efforts pour intégrer et harmoniser la gestion des comptes débiteurs de tous ses programmes. Cependant, la qualité du portefeuille des comptes débiteurs s'est détériorée au cours des cinq dernières années. Le rendement des comptes débiteurs pourrait être mieux mesuré, ciblé et analysé afin de permettre d'évaluer la rentabilité des activités de recouvrement du Ministère.

17.6 Quant aux activités de protection de l'intégrité des programmes, la gestion axée sur les résultats est plus avancée pour le Programme d'assurance-emploi. Depuis 1992, la Direction des enquêtes et du contrôle utilise l'information sur les résultats pour négocier les ressources requises et pour fixer une cible nationale de rendement. Cependant, les autres activités de protection des fonds publics pourraient être mieux mesurées et ciblées si l'on veut parvenir à une gestion qui se fasse en fonction des résultats.

# Développement des ressources humaines Canada — La Stratégie du poisson de fond de l'Atlantique



Vévificateur général adjoint : David Rattray Vévificateur responsable : Louis Lalonde

#### Chapitre 16 - Points saillants

16.1 Le cadre de reddition des comptes de la Stratégie du poisson de fond de l'Atlantique (la Stratégie) présente des faiblesses importantes, qui ont eu des conséquences sur la valeur reçue en contrepartie de l'argent dépensé. Parmi ces faiblesses, notons ce qui suit :

- es responsabilités des organismes devant élaborer et mettre en oeuvre la Stratégie n'ont pas été clairement définies et acceptées dans un protocole d'entente;
- aucun plan stratégique global n'a été établi pour recenser et ordonnancer les activités des organismes responsables et définir les indicateurs et les attentes de rendement à utiliser et à surveiller, et sur lesquels faire rapport;
- aucun mécanisme officiel de coordination n'a été envisagé alors que la Stratégie nécessitait des activités conjointes du fait que ses volets étaient interdépendants;
- l'information présentée au Parlement n'a pas permis de déterminer les progrès réalisés pour atteindre les objectifs de la Stratégie visant à restructurer l'industrie de la pêche dans le Canada atlantique de façon à ce qu'elle devienne viable sur le plan économique et durable sur le plan environnemental.
- 16.2 Le calendrier pour élaborer la Stratégie n'était pas réaliste pour une initiative de cette envergure. Il n'a pas été établi en fonction d'une restructuration de l'industrie. Les fonds, de 1,9 milliard de dollars, ont été répartis selon une stratégie préliminaire. Des réaffectations de fonds entre les volets de la Stratégie ont dû avoir lieu en raison de changements majeurs à la stratégie initiale et de prévisions de la population admissible inférieures à la réalité.
- I6.3 Unformation nécessaire pour évaluer l'admissibilité des participants n'était pas toujours disponible. Étant donné la difficulté d'obtenir une information claire et précise, des décisions ont été prises à partir de transeignements incomplets, qui ne répondaient pas aux exigences des critères d'admissibilité de la Stratégie. Des erreurs ont été notées dans l'application de ces critères depuis le début de la mise en place de la Stratégie et plusieurs rectifications ont dû être apportées. Diverses interprétations des critères d'admissibilité ont entraîné un traitement différent des participants d'un endroit à l'autre.
- **16.4** Les résultats du volet Adaptation de la main-d'oeuvre de la Stratégie ne seront pas connus. Les efforts d'évaluation de programme ont été abandonnés lorsqu'on est passé de mesures actives d'adaptation à des mesures passives. Le fait que l'information recueillie et les leçons apprises lors d'une première évaluation de l'élaboration et de la mise en place du programme puissent être perdues et que l'on ne rende pas compte des résultats nous préoccupe.
- 16.5 Le gouvernement doit se pencher sur les questions à plus long terme découlant de l'élimination de la Stratégie, prévue pour mai 1998. Nous le pressons d'examiner attentivement les conséquences et les répercussions des décisions prises dans le cadre de la Stratégie afin d'en tirer des leçons utiles.

# Pêches et Océans Canada — Rationalisation et renouvellement : le poisson de fond de l'Atlantique le poisson de fond de l'Atlantique



Vérificaleur général adjoint: Don Young Vérificaleur responsable: Doug Timmins

#### Chapitre 15 - Points saillants

15.1 Pêches et Océans Canada a reconnu la nécessité de modifier en profondeur la pêche, la relation qu'il a avec l'industrie ainsi que ses méthodes de gestion afin de parvenir à une pêche durable. Depuis 1992, le Ministère a pris des mesures pour réduire le nombre de permis de pêche au poisson de fond et a apporté des changements à pris des mesures pour réduire le nouvelles dispositions pour que la responsabilité de cette gestion soit partagée à l'avenir.

15.2 Un objectif clé de la Stratégie du poisson de fond de l'Atlantique (la Stratégie ou LSPA) et d'autres initiatives est de réduire la capacité actuelle de récolte d'au moins 50 p. 100 à long terme. Les 300 millions de dollars qui avaient été affectés au départ, dans le contexte de la Stratégie, pour réduire cette capacité ont été tramenés à 97 millions. Le Ministère a concentré ses efforts de réduction de la capacité au retrait de permis et sans permis. Le Ministère aux retraites pour le retrait de permis de prèche au poisson de fond et à 266 pêcheurs fonds affectés à leur rachat et aux retraites anticipées n'avaient pas été réduits de près de 200 millions de dollars. Il prévoit le retrait éventuel de 2 626 autres permis lorsque leurs titulaires actuels abandonneront la pêche. En supposant que le Ministère soit capable d'effectuer ces retraits, il aura supprimé environ 23 p. 100 des permis qui estaient que le Ministère soit capable d'effectuer ces retraits, il aura supprimé environ 23 p. 100 des permis qui laissera que le Ministère soit capable d'effectuer ces retraits, il aura supprimé environ 23 p. 100 des permis qui aissacra que le Ministère soit capable d'effectuer ces retraits, il aura supprimé environ 23 p. 100 des permis qui laissacra que le Ministère soit capable d'effectuer ces retraits, il aura supprime en la foncée. Toutefois, cela laissacra que le Ministère en circulation, dont une partie sont détenus par les pêcheurs qui, dans le passé, ont pris le plus de poisson. Ainsi, il demeurera un excédent important pour ce qui est de la capacité de récolte.

15.3 Le Ministère a apporté de nombreuses modifications à ses activités de gestion du poisson de fond depuis 1992, modifications qui représentent, selon lui, des améliorations par rapport aux méthodes appliquées auparavant. Il a introduit des plans de pêche axés sur la conservation, et les connaissances des pêcheurs ont été intégrées à la gestion du poisson de fond. Il n'empêche qu'il faut encore améliorer les pratiques de la gestion de la pêche pour assurer la durabilité de la ressource.

Dans le passé, des méthodes de gestion ont été adoptées dans l'intention de préserver la ressource. Pour diverses raisons, leur application à échoué. Vu l'incertitude inhérente à la ressource, il faut fonder les décisions sur le principe de précaution, améliorer la surveillance des prises et faire de l'application des règlements un élément capital de la gestion du poisson de fond.

IS.5 Le Ministère se réorganise tout en procédant aux coupures qui découlent de l'Examen des programmes. Il a comme stratégie à long terme de transférer plus de responsabilités en matière de gestion de la pêche à l'industrie du poisson de fond. Ce transfert n'a pas encore eu lieu, notamment à cause de l'imitations législatives et aussi à cause de l'incapacité de certains secteurs de l'industrie d'accepter des responsabilités élargies. En l'absence d'assurance que l'industrie pourra accepter des responsabilités accrues et le fera, nous nous inquiétons des répercussions que pourraient avoir sur la conservation les réductions et les modifications prévues aux activités de gestion du poisson de fond du Ministère.

### Chapitre 14 - Points saillants (suite)

14.6 L'attachement culturel profond pour la pêche au poisson de fond a été renforcé par plusieurs décennies de subsides gouvernementaux. Il en est résulté des pressions appréciables sur le gouvernement pour le maintien du statu quo, c'est-à-dire l'utilisation du poisson pour la prestation de soutien au revenu. Les gouvernements qui se sont succédé ont accordé un soutien au revenu de plus en plus important aux pressions sociales ne s'est pas collectivités côtières éloignées du Canada atlantique. Cette façon de réagir aux pressions sociales ne s'est pas traduite par une pêche rentable. En réalité, la disparition de la pêche a révélé, plus clairement que jamais, qu'une partie importante de l'industrie de la pêche de l'Atlantique reposait fortement sur le soutien du revenu. Cette dépendance complique encore plus les problèmes déjà complexes découlant de la surcapacité ou de la gestion des pêches.

L'avenir de la pêche au poisson de fond demeurant incertain, les problèmes demeurent, eux-aussi, critiques. Selon nous, le Ministère, de pair avec le gouvernement, se doit de prendre d'autres mesures afin de mettre en application le principe selon lequel la « conservation de memer le premier impératif », et de maintenir ses efforts afin de veiller à ce que les décisions en matière de gestion de la ressource soient conformes au principe selon lequel « la capacité de récolte se doit de correspondre à la ressource disponible. » En même temps, le gouvernement doit prendre de difficiles décisions socio-économiques quant à l'avenir de ceux que la pêche ne peut faire vivre, si la gestion des pêches a pour objet de garantir le caractère durable des pêches des points de vue écologique et économique.

# Pêches et Océans Canada — Un cadre pour la pêche durable : le poisson de fond de l'Atlantique le poisson de fond de l'Atlantique



Vérificateur général adjoint: Don Young Vérificateur responsable: Doug Timmins

#### Chapitre 14 - Points saillants

I4.1 Même si bon nombre de pêches de l'Atlantique continuent d'être prospères, les années 90 ont vu l'effondrement de la plupart des pêches commerciales du poisson de fond du Canada atlantique. À mesure que les stocks de poisson de fond de l'Atlantique s'appauvrissaient pour atteindre les plus bas niveaux jamais enregistrés, pêches et Océans Canada et l'Organisation des pêches de l'Atlantique et réduisaient fin progressivement à la plupart des pêches commerciales au poisson de fond de l'Atlantique et réduisaient de façon appréciable les totaux autorisés de capture des autres pêches.

Pour faire face à cette situation, le gouvernement fédéral a mis en oeuvre des programmes de soutien du revenu et d'adaptation, qui viennent en aide à ceux qui dépendaient de la pêche, en plus de prendre des mesures particulières visant à améliorer la gestion des ressources halieutiques et à faire concorder la capacité de l'industrie de trois milliards de dollars de fonds de programmes nouveaux et réaffectés. Cela a permis de réaliser certains progrès, mais bon nombre des problèmes cruciaux connexes à la pêche, notamment la surcapacité en matière de capture du poisson, ne sont toujours pas réglés et le nombre de personnes qui dépendent des programmes d'aide capture du poisson, ne sont toujours pas réglés et le nombre de personnes qui dépendent des programmes d'aide à la pêche et de soutien du revenu est élevé.

La gestion, dans l'optique d'une exploitation durable, de la pêche du poisson de fond de l'Atlantique, qui est saisonnière et exige une importante main-d'oeuvre, constitue un défi extrêmement complexe. Les décideurs doivent tenir compte de l'imprécision inhérente à la détermination de l'état des stocks de poisson en plus de subir les pressions exercées par les pêcheurs, les travailleurs d'usine et l'industrie qui souhaitent maintenir leur les pressions exercées par les pêcheurs, être admissibles à l'assurance-emploi pendant la saison morte et pénéticier d'autres formes d'aide gouvernementale en périodes de crise.

I4.4 Pêches et Océans Canada a énoncé les principes d'une pêche de l'avenir, mais il reste à élaborer des indicateurs mesurables qui permettront d'en évaluer les progrès. Des progrès ont été accomplis dans le domaine de la réduction du nombre de permis de pêche au poisson de fond, mais la surcapacité de récolte, exprimée en capacité de tuer les poissons, demeure. Le Ministère se doit de poursuivre ses efforts dans le but de cerner l'étendue de l'effet des facteurs environnementaux et autres sur le déclin du poisson de fond. En outre, les pratiques de gestion se doivent d'être encore améliorées afin de mieux gérer les risques et l'incertitude inhérents à la gestion des pêches en tant que ressource durable. Il faut accorder la priorité au principe de précaution à la conservation et s'attaquer aux pratiques de pêche non durable.

14.5 Le Ministère a affirmé qu'il avait pour mandat la conservation des ressources halieutiques et que cela se reflétait dans la législation actuelle, mais nous n'avons trouvé aucun énoncé clair d'une politique nationale sur les pêches durables. De plus, les indicateurs de rendement se doivent d'être améliorés et les processus de planification et de communication de l'information sur le rendement doivent être mieux intégrés.

# Santé Canada – La santé des Premières nations



Vérificatrice générale adjointe : Maria Barrados Vérificateur responsable : Ronnie Campbell

#### Chapitre 13 - Points saillants

- 13.1 L'état de santé des membres des Premières nations est bien pire que celui de la population canadienne en général. Il est influencé par les mauvaises conditions socio-économiques de leurs collectivités, qui posent des défis considérables pour Santé Canada et les autres parties leur offrant des services de santé.
- 13.2 Il est nécessaire d'améliorer la gestion des programmes de santé communautaire exécutés en vertu d'accords de contribution distincts. Santé Canada ne surveille pas efficacement ces accords. Souvent, il n'existait pas de descriptions claires et détaillées des programmes à mettre en oeuvre dans les collectivités visées. Dans environ les deux tiers des accords que nous avons examinés, le Ministère ne possédait pas les renseignements exigés sur les activités poursuivies dans les collectivités.
- On a élaboré un cadre approprié pour le transfert de la responsabilité des programmes de santé aux collectivités, ce qui a permis aux Premières nations de commencer à gérer leurs propres programmes de santé. Toutefois, ce cadre n'a pas encore été mis en oeuvre complètement. Les rapports exigés fournissent rarement des renseignements sur le rendement dans le domaine de la santé, et les exigences en matière de vérification des programmes n'étaient pas suffisamment satisfaites. De plus, l'évaluation de l'initiative de transfert n'a pas mesuré les changements dans la santé de la population.
- La gestion des prestations pharmaceutiques fournies en vertu du Programme des services de santé non assurés (SSNA) comporte des lacunes importantes, ce qui permet aux clients de se procurer de très grandes quantités de médicaments prescrits. Bien que le Ministère soit au courant depuis presque dix ans du problème de l'usage à mauvais escient des médicaments prescrits, nous n'avons constaté aucun signe indiquant qu'il soit l'usage à mauvais escient des médicaments prescrits que problème et les nombreux cas rapportés de toxicomanie due à l'utilisation de médicaments prescrits et de décès liés à ceux-ci dans les collectivités des Premières nations, on a mis beaucoup de temps à intervenir.
- 13.5 Afin d'essayer de combler les lacunes du Programme, Santé Canada fait actuellement l'essai d'un système de traitement aux points de service, dont la mise en oeuvre intégrale est prévue à l'autonne 1997. Ce système pourrait s'avérer un mécanisme clé pour le contrôle de l'utilisation des médicaments et l'administration des prestations pharmaceutiques. Le Ministère doit toutefois rédiger un protocole précis pour orienter les mesures d'intervention et surveiller de près les cas où les pharmaciens ne tiennent pas compte des messages d'avertissement.
- L3.6 Les fournisseurs de soins dentaires ont tendance à ne pas offrir les services selon les besoins mais plutôt selon les fréquences et les limites établies, ce qui donne lieu à la prestation de services superflus à certains patients des Premières nations. Le Ministère a mis à l'essai un processus de détermination préalable et il prévoit mettre en ocuvre à l'échelle nationale ce modèle axé sur les besoins.
- L3.7 Le Ministère a réussi à instaurer certaines mesures de gestion des coûts, ce qui a permis de réduire le taux d'augmentation des coûts directs du Programme des services de santé non assurés (SSNA), le faisant passer ainsi de 22,9 p. 100 en 1990–1991 à 5,6 p. 100 en 1995–1996. Cependant, d'autres économies peuvent être réalisées dans d'autres domaines, notamment en ce qui a trait aux frais d'exécution des ordonnances et au transport pour des raisons de santé. De plus, la direction doit améliorer l'évaluation des demandes de remboursement et les vérifications des fournisseurs.

# Les technologies de l'information — La préparation à l'an 2000



Vérificateur général adjoint : Doug Timmins Vérificatrice responsable : Nancy Cheng

#### Chapitre 12 - Points saillants

L2.1 La crise de « l'an 2000 » est un phénomène mondial. Elle tient à la possibilité d'erreurs, de défectuosités et de défaillances des systèmes qui découle de l'habitude que les informations avaient de représenter l'année par un code à deux chiffres. L'an 2000 peut menacer le fonctionnement des systèmes gouvernementaux qui appuient la prestation de programmes et services au public de même que les opérations internes. Les coûts estimatifs du règlement des problèmes causés par l'an 2000 ont été établis, pour l'ensemble de la planète, à une somme pouvant atteindre 600 milliards de dollars américains. Au établis, pour l'ensemble de la planète, à une somme pouvant atteindre 600 milliards de dollars américains. Au Canada, les coûts totaux sont évalués entre 30 milliards et 50 milliards de dollars américains. Au Trésor a estimé que les coûts pour le gouvernement canadien s'établissaient à un milliard de dollars.

12.2 La préparation à 1'an 2000 est généralement reconnue comme étant l'un des plus importants projets en technologies de l'information. La date limite est immuable, et moins de trois ans nous séparent du nouveau millénaire. Nous avons conclu qu'à la fin d'avril 1997, le rythme des progrès accomplis pour atténuer les risques défaillances des systèmes était généralement lent et que les risques résiduels étaient élevés. En outre, des risques considérables, comme les priorités contradictoires pour le développement de systèmes et l'insuffisance des ressources techniques, pourraient, s'ils se matérialisaient, menacer les efforts déployés en vue de l'an 2000.

12.3 Le Secrétariat du Conseil du Trésor a aidé à accroître la sensibilisation dans l'ensemble du gouvernement et a favorisé l'échange de points de vue et d'expériences sur les efforts en vue de l'an 2000. Son bureau du projet de préparation à l'an 2000 travaille avec les ministères et les organismes afin de déterminer les problèmes communs et d'y trouver des solutions. Le Secrétariat nous a informés que sa présentation pour le financement de projets à l'échelle du gouvernement a été approuvée à la fin de juin, en vue d'être soumise au Conseil du Trésor au cours de l'été de 1997.

Toutefois, si les progrès se poursuivaient au rythme observé au moment de notre vérification, ils seraient probablement trop lents pour que les systèmes du gouvernement, y compris les systèmes indispensables à l'appui assurant des programmes et services genvernementaux restent exposés à des risques. La défaillance de systèmes indispensables pourrait nuire à la santé et à la sécurité de la population de même qu'aux services publics indispensables pour avis, l'an 2000 représente une grave menace qui exige une action urgente et vigoureuse.

Nous avons recommandé que les projets de préparation à l'an 2000, y compris l'élaboration de plans d'urgence, soient classés parmi les grandes priorités des ministères et des organismes. De plus, nous avons proposé que le Secrétariat accorde une priorité élevée à son projet de surveillance de la mise en oeuvre de la plupart des systèmes indispensables pour l'ensemble du gouvernement. Nous avons aussi fait ressortir la nécessité d'un engagement et d'un appui soutenus de la part de la haute direction et, s'il y a lieu, d'un engagement continu de la part des ministres pour surmonter les dangers et obstacles qui risquent de faire dérailler les projets de préparation à l'an 2000.

# Vers une gestion axée sur les résultats



Vérificatrice générale adjointe : Maria Barrados

#### Chapitre 11 - Points saillants

Plisque les Canadiens s'attendent que les programmes soient rentables, les gestionnaires du gouvernement doivent axer leurs efforts sur l'obtention de résultats, notamment sur les avantages pour les Canadiens. Il est essentiel que les décisions soient fondées sur les résultats dans un contexte où le gouvernement est à revoir sa participation à la mise en oeuvre des programmes et se fie davantage à des tiers à cet égard. Nous avons cependant constaté que la gestion axée sur les résultats n'était pas une pratique très répandue au sein du gouvernement. Par le passé, les gestionnaires ont eu tendance à concentrer leur attention sur les ressources exploitées, les activités réalisées et les procédés à suivre.

Un certain nombre d'initiatives récentes au sein de l'appareil gouvernemental vont dans le sens d'une gestion axée sur les résultats, mais des efforts concertés sont nécessaires pour opérer les changements voulus. La présente étude vise à favoriser une telle évolution en faisant converger dans le même document les expériences liées à divers programmes du gouvernement canadien et d'autres administrations publiques qui ont progressé de façon significative. Nous avons retenu, dans le cadre de l'étude, des exemples qui illustrent divers contextes et diverses demarches.

II.3 Nous avons vu des situations où les gestionnaires mesuraient le rendement, communiquaient, tant à l'intérieur qu'à l'extérieur, l'information concernant les résultats et utilisaient cette information en vue d'améliorer les résultats. Les gestionnaires des programmes visés étaient en mesure de montrer du doigt les améliorations constatées par rapport à certaines conséquences clés auxquelles ils s'efforçaient d'aboutir dans l'intérêt des Canadiens, de concert avec leur ministre. Ces gestionnaires ont également constaté que la gestion axée sur les résultats améliorait les pratiques de gestion, les activités des programmes et accroissait la crédibilité des programmes.

L1.4 La façon dont la gestion axée sur les résultats est instaurée variera selon la situation d'un programme donné. Nous avons cependant pu dégager certaines constantes. Le leadership de la haute direction et la volonté d'agir à tous les niveaux de l'appareil gouvernemental ont une importance toute particulière. Les gestionnaires efficaces engendrent un climat organisationnel qui incite à gérer en vue d'obtenir des résultats. Il importe également que les intéressés s'entendent sur les résultats escomptés et sur les moyens de les mesurer. Bien qu'elle soit difficile, une telle entente est nécessaire pour que les activités soient ciblées et permettent d'évaluer les progrès accomplis.

II.5 Pour que les progrès se poursuivent en matière de gestion axée sur les résultats, il faudra que les notamment que les décideurs fassent valoir l'importance des résultats, d'une part en demandant de l'information sur ces mêmes résultats et, d'autre part, en se fondant visiblement sur eux pour prendre des décisions.

## Ressources naturelles Canada — L'efficacité énergétique



Vévificalvice génévale adjointe : Ellen Shillabeer

#### Chapitre 10 - Points saillants

10.1 Depuis un grand nombre d'années, Ressources naturelles Canada (RNCan) s'emploie à promouvoir l'efficacité énergétique. Jusqu'au milieu des années 80, le Ministère mettait l'accent sur les programmes de subventions, mais il a depuis radicalement changé sa façon de promouvoir l'efficacité énergétique. Il voit maintenant son rôle comme celui d'un chef de file et il établit des partenariats visant à réduire la consommation d'énergie et à augmenter l'efficacité énergétique. Aujourd'hui, il met plutôt l'accent sur les effets environnementaux de l'utilisation de l'énergie.

Do.2 Les 16 initiatives actuelles d'efficacité énergétique de RMCan qui ne sont pas axées sur la recherche et le développement constituent un élément clé de la stratégie que s'est donnée le Canada pour parvenir, comme il s'y est engagé, à stabiliser, d'ici l'an 2000, les émissions de gaz à effet de serre aux niveaux de 1990. Nous avons constaté que l'information sur le rendement dont le Ministère dispose actuellement, qu'il s'agisse des attentes ou des réalisations, n'est pas suffisante pour nous permettre de juger du succès global de ses initiatives d'efficacité énergétique, plus précisément de leur apport à l'objectif de stabilisation.

10.3 Le Ministère a consacré, au cours de l'exercice financier 1995–1996, un total d'environ 16,5 millions de dollars aux 16 initiatives. Il existe un grand éventail d'instruments stratégiques pouvant servir à encourager l'efficacité énergétique, mais le Ministère a recours à un nombre limité d'entre eux, à savoir l'utilisation sélective de règlements, l'information et les mesures volontaires.

Les objectifs fixés pour bon nombre des initiatives d'efficacité énergétique ne fournissent pas d'information claire et concrète sur les réalisations escomptées, qui puisse servir de référence au Ministère pour mésurer et évaluer le rendement global de ses initiatives et établir des liens appropriés avec l'objectif de stabilisation. Le Ministère prend actuellement des mesures pour améliorer la qualité de l'information sur le rendement, lorsque cela est possible et rentable.

10.5 Le Ministère pourrait encore améliorer sa transparence et mieux rendre compte au Parlement des attentes à l'égard du rendement et des réalisations de chacune de ses initiatives.

10.6 Le Ministère a commencé à améliorer l'efficacité énergétique de ses propres installations et de son parc automobile et il s'attend à atteindre ses objectifs actuels d'ici la fin de 1997–1998.

# Affaires étrangères et Commerce international Canada — La gestion et le contrôle financiers



Vèrificateur genèral adjoint : David Rattray Vèrificateur responsable : John Hitchinson

#### Chapitre 9 – Points saillants

Depuis notre vérification de 1994, le ministère des Affaires étrangères et du Commerce international a continué d'améliorer son contrôle des finances dans les domaines où des problèmes avaient déjà été signalés, notamment la collecte du loyer auprès des employés et le contrôle des avances versées aux employés. La formation financière a aussi été améliorée. Les systèmes financiers de base sont maintenant plus performants, mais il reste encore beaucoup à faire à ce chapitre. Il faut aussi continuer à favoriser, dans l'ensemble du Ministère, la sensibilisation aux coûts et l'intendance.

5.2 L'ajout de la somme de 25 \$ au coût de chaque passeport délivré, aux fins du recouvrement des coûts consulaires, était fondé au début sur des données financières erronées. Après notre vérification, le Ministère a recalculé les coûts. Bien que ces nouveaux calculs aient révélé un certain nombre d'augmentations et de diminutions des coûts, il semble qu'il ne soit pas nécessaire de modifier les frais pour services consulaires.

Cependant, le contrôle des dépenses liées à l'entretien des propriétés est encore faible dans certains domaines.

Cipendant, le contrôle des dépenses liées à l'entretien des propriétés est encore faible dans certains domaines.

D'importantes sommes ont été dépensées pour la rénovation et la réparation des résidences officielles au moment du changement de chefs de mission, sans que les besoins aient été clairement établis par les missions et la priection générale. Celle-ci n'a pas élaboré un plan financier global aux fins d'examen par la haute direction, qui présente les dépenses et recettes annuelles probables et comporte d'autres stratégies de financement qui lui présente les dépenses et recettes annuelles probables et comporte d'inmobilisations à l'étranger. Les systèmes d'information ne soutiennent pas encore la fonction de gestion des biens comme ils le devraient.

Avec l'installation du SIGNET (Réseau mondial intégré de communications), le Ministère a réussi à se doter d'un réseau mondial de communications de bureau à bureau; toutefois, cela s'est avéré plus compliqué que prévu. On a créé un poste d'agent d'information en chef (AIC), dont le mandat est de consolider les plans et les budgets relatifs à toutes les dépenses du Ministère dans le domaine des technologies de l'information, ainsi que de recommander des priorités. Le système d'information financière n'a pas été utilisé de façon uniforme pour la budgétisation des dépenses de TI à l'échelle du Ministère.

Des directives sur le service extérieur (DSE) n'ont pas changé depuis notre dernière vérification. Il se peut toutefois qu'elles soient simplifiées, car on a récemment entrepris de les revoir sous les angles de la fiscalité, de la complexité et de la pertinence. La capacité du Ministère à analyser les coûts des DSE et à fournir de l'information à cet égard s'est améliorée; cependant, la formule de la gestion partagée des DSE n'est pas aussi efficace qu'elle le devrait. La gestion des voyages aux termes des DSE s'est améliorée ces deux dernières années.

# Ministère des Finances — Le Programme de péréquation



Vérificateur général adjoint: Ron Thompson

#### Chapitre 8 – Points saillants

Un élément essentiel qui caractérise la citoyenneté dans ce pays est qu'elle doit donner un accès relativement égal aux services gouvernementaux de base, quel que soit le lieu de résidence du citoyen.

Commission royale sur l'union économique et les perspectives de développement du Canada, 1985

8.1 Ce principe fondamental est toujours l'élément moteur du programme de péréquation du gouvernement fédéral, vieux de 40 ans, en vertu duquel, en 1996–1997, des paiements inconditionnels de 8,5 milliards de dollars ont été transférés aux provinces relativement pauvres. La péréquation est un programme axé sur les besoins, qui exige une attention soutenue et une mise au point continue pour rester conforme à son objectif.

8.2 L'objectif du Programme de péréquation étant d'égaliser la capacité des provinces à percevoir des recettes, la clé de son succès réside dans la façon dont le Régime fiscal représentatif, le fondement même du programme, reflète les divers régimes fiscaux provinciaux. Aussi, le Programme doit être renouvelé au moins tous les constante de ces régimes et s'y adapter. En vertu de la loi, le Programme doit être renouvelé au moins tous les cinq ans, ce qui donne au gouvernement fédéral l'occasion immanente d'actualiser le Programme, de concert avec les provinces. Nous avons constaté qu'un tel système fonctionne, mais qu'il pourrait être plus efficace si le comité fédéral-provincial sur la péréquation commençait son examen des questions en suspens plus tôt, à chaque nouvelle période de péréquation.

8.3 Nous sommes d'avis qu'il doit exister une solide base sur laquelle on puisse s'appuyer pour savoir pourquoi le Programme devrait être modifié et comment il devrait l'être. À ce propos, nous préconisons l'établissement de principes directeurs qui régiraient la structure du Régime fiscal représentatif ainsi que les dispositions plafond et seuil qui limitent les fluctuations des paiements.

8.4 Etant donné que c'est au Parlement de prendre les décisions finales concernant le Programme de péréquation, nous pensons que le ministère des Finances devrait s'efforcer davantage d'informer le Parlement, et le public en général, du fonctionnement de ce programme très complexe. Nous pensons également qu'il devrait faire une utilisation plus efficace du Parlement, en sollicitant l'avis d'un nombre plus grand d'intéressés plutôt que de s'appuyer quasi exclusivement sur l'avis d'un comité de fonctionnaires fédéraux et provinciaux.

Nous jugeons raisonnable le procédé administratif sur lequel sont fondés le calcul des droits et le gouvernement des paiements. Toutefois, nous avons remarqué que les soldes impayés que les provinces, en 1995–1996, un avantage supplémentaire d'environ 38 millions de dollars. Nous pensons que le gouvernement devrait revoir sa avantage supplémentaire d'environ 38 millions de dollars. Mous pensons que le gouvernement devrait revoir sa politique concernant l'intérêt sur les soldes impayés qui lui sont dus, ou dont il doit lui-même s'acquitter.

Les fonctionnaires nous ont fréquemment rappelé que le Programme de péréquation occupe une place importante dans la fédération canadienne. Méanmoins, un tel programme ne peut être meilleur que les procédés en place qui lui permettent de s'adapter aux forces mouvantes des régimes fiscaux provinciaux. Nous sommes d'avis que le Programme dans sa forme actuelle et les mécanismes de changement qui s'y rattachent fonctionnent raisonnablement bien, mais qu'ils pourraient être améliorés. C'est donc un défi à relever et une occasion à saisir par le gouvernement et le Parlement qu'il dessert.

#### Les cartes d'achat



Vérificateur général adjoint : Shahid Minto Vérificateur responsable : Trevor R. Shaw

#### Chapitre 7 – Points saillants

7.1 Les cartes d'achat constituent un instrument d'achat récent dans l'administration fédérale. L'utilisation des cartes s'est répandue rapidement depuis 1991 et cette croissance se maintient. En 1996, les cartes, au nombre d'environ 20 000, ont servi à acheter des biens et des services pour une valeur de 172 millions de dollars.

7.2 L'utilisation des cartes ne permet pas d'exercer les contrôles financiers traditionnels, par exemple la séparation des tâches. Le contrôle est essentiel, mais pour pouvoir l'exercer, les organisations doivent surveiller et analyser l'utilisation des cartes, comptabiliser et rapprocher les débits, effectuer des vérifications périodiques et des vérifications des opérations sur carte. Nous avons constaté qu'il y a place à l'amélioration à ces égards. En particulier, il est nécessaire d'avoir une meilleure information et d'avoir davantage recours aux outils électroniques pour moderniser le contrôle des cartes.

7.3 Les mesures dont nous disposons n'indiquent pas de pertes importantes pour le moment, mais la gravité et le nombre de problèmes pourraient s'accroître si les organisations ne renforcent pas le contrôle et n'échangent pas leurs meilleures pratiques. Il est temps que le gouvernement évalue le programme des cartes afin de déterminer les nouveaux risques et les processus de contrôle de gestion qui devraient être appliqués.

#### Le rendement des marchés



Vérificaleur général adjoint : Shahid Minto Vérificaleur responsable : Michael Weir

#### Chapitre 6 – Points saillants

- **6.1** En 1995–1996, le gouvernement a versé, à des fournisseurs de l'extérieur, environ 14,3 milliards de dollars (pour des biens, des services et des travaux de construction) pour six millions d'opérations d'achat distinctes touchant des milliers de gestionnaires de centres de responsabilité et de fournisseurs, par l'entremise de 33 ministères et organismes et de 2 000 spécialistes des achats.
- 6.2 Les partenaires du Canada dans le cadre d'accords commerciaux, les entreprises, les fonctionnaires nommés, les représentants élus et les citoyens de ce pays ont tous leur définition du terme « bon rendement des marchés ». Le processus d'attribution des marchés devient de plus en plus complexe.
- 6.3 Sur la foi de notre examen, il semble que, bien qu'il y ait de nombreux éléments valables sur lesquels on peut miser, il y a aussi beaucoup d'améliorations à apporter au rendement des marchés de l'État. Les conclusions que nous avons tirées sont suffisamment sérieuses et les problèmes sont suffisamment répandus et chroniques pour justifier qu'on porte, aux échelons supérieurs, plus d'attention à l'attribution des marchés qu'on ne l'a fait au cours des dernières années.
- 6.4 Certains aspects du rendement se sont détériorés à la longue et d'autres restent inférieurs aux attentes depuis des décennies. Le Conseil du Trésor n'a pas établi de normes de base, malgré la multiplicité des objectifs contradictoires.
- 6.5 Les contraintes qui empêchent d'améliorer l'attribution des marchés (et l'établissement de rapports plus honnêtes sur le rendement des marchés, sont complexes, existent depuis longtemps et sont solidement enracinées. En raison de la nature de ces contraintes, des différences entre les ministères et de l'évolution du contexte des marchés de l'État, les possibilités d'amélioration ne sont pas uniformes parmi les ministères (et même au sein de ces ministères) ou parmi les différentes catégories de biens et de services.
- 6.6 Le Conseil du Trésor et Travaux publics et Services gouvernementaux Canada ont mis en place les éléments essentiels d'un cadre visant à permettre aux ministères d'exercer une plus grande autonomie dans l'attribution des marchés. Toutefois, dans l'ensemble, il reste beaucoup à faire pour s'assurer que l'on comprenne, adopte et réalise ces objectifs dans les faits.
- Pour continuer d'exercer, dans l'ensemble, un contrôle efficace sur les activités d'attribution des marchés, qui sont de plus en plus délégation doit s'appuyer sur une orientation fonctionnelle plus efficace et sur une plus grande visibilité des résultats et des décisions. Le Secrétariat du Conseil du Trésor doit :
- étudier de meilleures façons de gérer les tensions permanentes entre les responsabilités, les attentes et les pouvoirs des individus et des organisations;
- soumettre périodiquement au Parlement une meilleure évaluation stratégique d'ensemble du rendement des marchés et des priorités à ce titre, évaluation faisant état des progrès accomplis dans la réalisation des objectifs convenus.
- 6.8 Travaux publics et Services gouvernementaux Canada peut apporter son concours en offrant aux autres ministères des conseils et des compétences à caractère fonctionnel. Ce ministère doit aussi veiller à ce que l'information sur les marchés, adressée au Secrétariat du Conseil du Trésor et aux autres intervenants, soit ponctuelle, crédible et exempte d'erreurs importantes.

# La communication de l'information sur le rendement dans le Système de gestion des dépenses



Vérificalrice générale adjointe : Maria Barrados Vérificaleur responsable : John Mayne

#### Chapitre 5 - Points saillants

5.1 La communication de données sur la mesure dans laquelle les programmes fonctionnent bien est essentielle à la prise de décisions éclairées sur la façon de dépenser l'argent des contribuables et d'améliorer les programmes, et elle permet de démontrer au Parlement et aux Canadiens ce qu'ils obtiennent en contrepartie des impôts et des taxes qu'ils paient. Il est fréquent que ni le public, ni les députés, ni les gestionnaires n'aient ce genre de données. Trop souvent, l'information décrit les services fournis plutôt que leurs résultats.

5.2 Le gouvernement fédéral est en train de réorganiser son Système de gestion des dépenses, le mécanisme dont il se sert pour planifier ses dépenses futures, les budgétiser et les faire approuver par le Parlement. Les modifications sont de nature à inciter les ministères à élaborer une information de meilleure qualité pour aider les gestionnaires à offrir des programmes plus efficaces aux Canadiens et à informer le Parlement en temps plus opportun des résultats des activités qu'ils mènent. Certaines provinces canadiennes et quelques gouvernements étrangers ont déjà réalisé de grands progrès pour ce qui est de fournir à leurs assemblées législatives et à leurs citoyens une information de meilleure qualité sur le rendement des programmes gouvernementaux.

Des progrès ont été accomplis par plusieurs ministères et, à plusieurs reprises, nous avons constaté que l'information sur le rendement communiquée au Parlement répondait à bon nombre des aspects clés des rapports sur le rendement. Plus précisément, nous avons noté une amélioration en ce qui touche l'accent mis sur les résultats dans l'information. Mais, pour atteindre le plein potentiel, les ministères doivent décrire plus clairement et plus précisément le rendement attendu — c'est-à-dire selon des critères plus mesurables. L'information sur le rendement doit plus porter sur les avantages qu'en retirent les Canadiens. Cela prendra du temps.

F.4 Pour réaliser des progrès plus marqués, il faudra un leadership vigoureux de la part du Secrétariat du Conseil du Trésor et de la haute direction des ministères. Le Secrétariat du Conseil du Trésor a apporté des innovations positives en un court laps de temps, mais il doit rendre plus uniforme l'aide qu'il apporte aux ministères, et consigner et faire connaître les bonnes pratiques pour mesurer le rendement et en rendre complie.

5.5 Le rôle des comités permanents du Parlement est essentiel pour que les progrès se poursuivent. En effet, si les comités demandent de l'information sur les résultats des activités gouvernementales et utilisent manifestement cette information dans leurs délibérations, les ministères seront fortement incités à recueillir et à fournir l'information.

# Le contrôle des mouvements transfrontaliers des déchets dangereux



Le commissaire à l'environnement et au développement durable : Brian Emmett Vérificateurs responsables : Dan Rubenstein et Wayne Cluskey

#### Chapitre 4 - Points saillants

- 4.1 L'objectif premier de cette vérification est de déterminer si Environnement Canada, de concert avec d'autres ministères fédéraux et les provinces, a établi un régime complet et efficace pour contrôler les mouvements transfrontaliers des déchets dangereux, conformément aux engagements internationaux du Canada.
- 4.2 Environnement Canada a bien amorcé l'établissement d'un régime efficace et complet de contrôle des mouvements transfrontaliers des déchets dangereux, mais des lacunes importantes persistent. Par exemple, Environnement Canada n'a pas encore établi la capacité nécessaire à la prévention proactive des expéditions illégales de déchets dangereux. À la frontière, peu de mesures sont prises pour déceler le trafic illicite de déchets dangereux.
- 4.3 Le Canada a l'obligation, en vertu d'accords internationaux qu'il a signés, de contrôler les exportations et les importations de déchets dangereux. La Direction générale des services frontaliers des douanes de Revenu Canada possède bien une infrastructure permettant le contrôle des importations de façon continue, mais son organisation opérationnelle ne permet pas un contrôle matériel de chacune des expéditions exportées.
- 4.4 Il existe de réelles incitations monétaires au trafic illicite, par exemple : le coût de traitement de la charge d'un camion de déchets licites va de 300 \$ à 1 200 \$ la tonne métrique.
- 4.5 Le taux de détection du trafic illicite des déchets dangereux à la frontière est faible : il se fait peu d'inspections et d'essais efficaces sur les échantillons des importations et des exportations qui risquent d'être illégales. Qui plus est, le taux de détection des expéditions illicites de déchets dangereux est encore plus faible dans les ports maritimes et les cours de triage ferroviaires.
- Dans un domaine comme le contrôle des mouvements transfrontaliers des déchets dangereux, la chaîne n'est jamais plus forte que son chaînon le plus faible. À notre avis, vu les lacunes importantes dans les domaines de la prévention, de la détection et de l'exécution ainsi que le nombre limité d'installations permettant le contrôle matériel des exportations de déchets dangereux, le Canada n'est pas en mesure de savoir jusqu'où il respecte ses obligations internationales en matière de prévention du trafic illicite à la frontière.

# La gestion de la fonction comptable du gouvernement au niveau des organismes centraux



Vérificateur général adjoint : Ron Thompson Vérificateur responsable : John Hodgins

### Chapitre 3 - Points saillants

- 3.1 La fonction comptable fournit de l'information essentielle à la gestion du gouvernement et à la communication des résultats financiers au Parlement, aux Canadiens et aux autres parties intéressées.
- 3.2 Bien que les systèmes comptables soient désuets sur le plan technique, ils continuent de produire, pour le gouvernement, des états financiers annuels qui sont crédibles, compréhensibles et utiles. En fait, au cours de la dernière décennie, la fonction a connu des améliorations et des gains d'efficience importants qui, entre autres, ont placé le Canada à l'avant-garde sur la scène internationale pour ce type de rapport.
- 3.3 Cependant, la fonction comptable doit être dotée d'une meilleure capacité d'analyser et d'inferpréter l'information financière l'année durant afin de prévoir les résultats financiers de l'exercice et les chiffres budgétaires de l'exercice suivant.
- 3.4 Pour répondre à ces besoins, le gouvernement modifie en profondeur sa fonction comptable en mettant en ceuvre une stratégie d'information financière. Cette Stratégie devrait aider à moderniser et à renforcer la fonction comptable. Nous sommes d'accord avec les changements entrepris dans le contexte de la Stratégie, mais nous pensons qu'il faut faire davantage.
- Plus particulièrement, nous pensons que le gouvernement devrait préparer et publier ses rapports financiers en temps plus opportun et envisager d'autres stratégies pour améliorer l'utilité et la crédibilité de ses rapports mensuels ou trimestriels.
- 3.6 Etant donné les changements importants en cours et prévus, nous continuons de croire que le gouvernement fédéral devrait fusionner tous les aspects de sa fonction de comptabilité centrale et prendre des mettre mesures immédiates pour évaluer la capacité des services comptables des ministères et des organismes de mettre en oeuvre les nouveaux systèmes et d'appliquer la comptabilité d'exercice.
- 3.7 Le gouvernement a établi le Groupe de travail indépendant chargé de la modernisation de la fonction de contrôleur au sein du gouvernement du Canada. Le Groupe pourrait tenir compte de nos constatations et de nos recommandations dans ses travaux.

## La gestion financière — L'élaboration d'un modèle de la capacité



Verificateur general adjoint : Douglas G. Timmins Verificateur responsable : Hugh A. McRoberts

#### Chapitre 2 - Points saillants

Le contexte dans lequel l'administration fédérale fonctionne aujourd'hui évolue rapidement. Les ressources limitées, la réduction des effectifs et la déstratification font qu'il est encore plus difficile pour l'administration fédérale de fournir des services aux contribuables canadiens. Dans ce contexte, la nécessité d'une gestion financière efficace s'impose plus que jamais. La gestion financière joue un rôle essentiel en contribuant à l'atteinte des objectifs que s'est fixés l'administration fédérale, c'est-à-dire la réduction des coûts et l'amélioration de sa situation financière.

Malgré plusieurs commissions royales, vérifications, études et initiatives du Secrétariat du Conseil du Trésor au fil des ans, la gestion financière des organismes fédéraux demeure, à notre avis, prioritaire et exige une vigilance continue. Dans chaque rapport du vérificateur général, nous continuons d'observer et de signaler au Parlement des problèmes importants, dans un large éventail d'activités publiques, qui découlent d'une gestion financière déficiente.

Ces problèmes représentent, à notre avis, une source de préoccupation continue et soulèvent d'importantes questions au sujet de l'état de la gestion financière dans l'administration fédérale. Et parmi celles-ci, la question de savoir si nos observations représentent le type de lacunes propres à toute grande organisation ou si elles sont symptomatiques de problèmes plus systémiques de la gestion n'est pas la moindre. De plus, certains ministres continuent de manifester à notre bureau leur inquiétude et leur frustration au sujet du manque d'information financière appropriée pour étayer la prise de décisions stratégiques.

2.4 Le Bureau du vérificateur général s'est fixé, depuis longtemps, comme priorité stratégique d'encourager l'amélioration de la gestion financière dans l'administration fédérale et de la compréhension du rôle que la gestion financière peut et doit jouer. C'est pour cette raison que nous avons entrepris cette étude de concert avec le financière peut et doit jouer. C'est pour cette raison que nous avons entrepris cette étude de concert avec le Secrétariat du Conseil du Trésor. L'étude a pour objectif d'établir, à partir des travaux existants, un cadre moderne qui décrira les éléments essentiels d'une gestion financière efficace et qui servira de fondement pour évaluer l'état de la gestion financière dans les ministères et les organismes.

2.5 Ce chapitre est la première étape d'une étude visant à répondre aux besoins d'un cadre de gestion financière revitalisé. Il vise à servir de base aux discussions entre les organismes centraux, les ministères et notre bureau. Une fois terminée, l'étude servira de cadre convenu pour évaluer les capacités de la gestion financière et améliorer l'efficacité de la gestion financière dans l'administration fédérale.

2.6 L'initiative prise récemment par le Président du Conseil du Trésor d'établir un Groupe de travail indépendant chargé de la modernisation de la fonction de contrôleur dans l'administration fédérale est très encourageante. Le Bureau appuie les travaux du Groupe et tiendra compte des résultats de ses travaux dans son étude.

# Le maintien d'une fonction publique compétente et efficiente



Vérificalrice générale adjointe : Maria Barrados Auteurs responsables : Alick Andrews et Otto Brodtrick

#### Chapitre 1 - Points saillants

- 1.1 L'efficacité de la fonction publique et l'efficience avec laquelle elle s'acquitte de ses fonctions sont cruciales pour la qualité de la régie et pour la santé économique, sociale et politique du pays.
- I.2 Environ 500 000 hommes et femmes occupent une forme ou une autre d'emploi au sein du secteur public fédéral; environ 207 000 d'entre eux formaient la fonction publique traditionnelle en mars 1996. La fonction publique fédérale est une institution aux prises avec la pression du changement et de l'adaptation : la pression exercée par les Canadiens, par le contexte politico-économique et par les défenseurs de la réforme administrative. Les participants à notre étude étaient tous convaincus de l'importance de mettre à profit les points forts du passé pour que le Canada aborde le XXI<sup>e</sup> siècle, doté d'une fonction publique moderne et de classe mondiale.
- 1.3 Il faut accorder une attention particulière au renouvellement et au rajeunissement de la main-d'oeuvre dans la fonction publique; à la résolution des problèmes de longue date dans la gestion des ressources humaines; à l'amorce d'un dialogue plus constructif sur le rendement et le partenariat; ainsi qu'à un leadership soulenu et à la détermination constante de progresser.
- I.4 Le défi de la fonction publique consiste à cemer et à combler les lacunes résultant des départs récents, de même qu'à se donner toute la capacité qu'il lui faut en ressources humaines pour répondre aux nouveaux impératifs et pour assurer sa vitalité future. Il faut trouver une solution aux problèmes associés à trois des plus importants systèmes de personnel. Divers moyens ont été pris pour les moderniser, mais il faut faire davantage.
- 1.5 Il faut trouver de meilleurs moyens de combler les lacunes en matière de rendement administratif. Pour que la fonction publique soit efficace, il lui faut compter sur un Parlement et sur des médias qui peuvent discuter honnêtement des erreurs dans le contexte du rendement global.
- 1.6 Il faudra continuer de persévérer dans les efforts visant à relever ces défis. Il faudra amorcer d'autres échanges et débats sur l'importance et l'envergure futures de la fonction publique et sur les moyens organisationnels à prendre.

#### (still) edong-frage (suite)

Le changement continu est devenu une caractéristique permanente du gouvernement fédéral, qui tente constamment de trouver des moyens plus efficients, plus économiques et plus efficaces pour exécuter ses programmes et fournir des services aux Canadiens. Les effets de la réduction des effectifs et des compressions budgétaires effectuées récemment se font encore sentir même au moment où les fonctionnaires restructurent et remanient leurs pratiques administratives en vue de pouvoir s'adapter aux nouvelles réalités.

Ce remaniement consiste en partie à modifier l'infrastructure de base de la reddition de comptes au gouvernement fédéral. Plusieurs chapitres du Rapport sont représentairls des travaux continus du Bureau visant à s'assurer que le gouvernement « tient compte des aspects essentiels » en apportant ces changements. Les études de ce rapport serviront de fondement à plusieurs travaux de vérification que nous prévoyons effectuer au cours des prochains mois.

Le recours à d'autres mécanismes de prestation de services semblables à ceux du secteur privé s'accroît et, en même temps, bon nombre des règles et des procédures rigides du passé sont remises en question. Il est donc encore plus essentiel que jamais que les décideurs aient la bonne information au bon moment. Le Rapport souligne la nécessité d'améliorer la qualité de l'information sur la gestion financière et de moderniser les systèmes qui la produisent. Il faut encourager les gestionnaires, à tous les niveaux, à se préoccuper des coûts et à assumer leur responsabilité d'intendance à l'égard des ressources.

Plus précisément, le Rapport porte sur des initiatives prises récemment par le gouvernement pour céder au secteur privé la prestation de certains services. Il met en lumière les leçons apprises qui, si l'on en tient compte, devraient permettre de mieux protéger les intérêts des contribuables lors des futures cessions.

Le Rapport fait aussi ressortir que les cadres supérieurs doivent connaître et énoncer plus clairement les objectifs de leurs programmes et de leurs activités et qu'ils doivent mesurer les résultats de ces efforts et en rendre compte plus concrètement. S'ils connaissent les ressources qui produisent les effets souhaités — et celles qui ne les produisent pas — les décideurs seront en mesure de poursuivre les activités qui donnent des résultats satisfaisants ou de faire les ajustements nécessaires afin que les contribuables canadiens obtiennent la meilleure valeur possible pour leur argent.

# communes — Avril et octobre 1997 du Canada à la Chambre des Rapport du vérificateur général



#### Avant-propos

élections fédérales. Ce volume du Rapport contient les chapitres suivants : pour avril, mais il a été reporté en raison de la clôture de la 35e législature comme suite au déclenchement des joints les Points saillants des 21 chapitres, qui sont publiés séparément. Le dépôt des chapitres 1 à 10 était prévu Je suis heureux de vous présenter le volume d'avril et d'octobre de mon rapport de 1997. À cet avant-propos sont

- Le maintien d'une fonction publique compétente et efficiente
- La gestion financière L'élaboration d'un modèle de la capacité
- La gestion de la fonction comptable du gouvernement au niveau des organismes centraux .ε
- Le contrôle des mouvements transfrontaliers des déchets dangereux
- La communication de l'information sur le rendement dans le Système de gestion des dépenses
- Le rendement des marchés
- Les cartes d'achat

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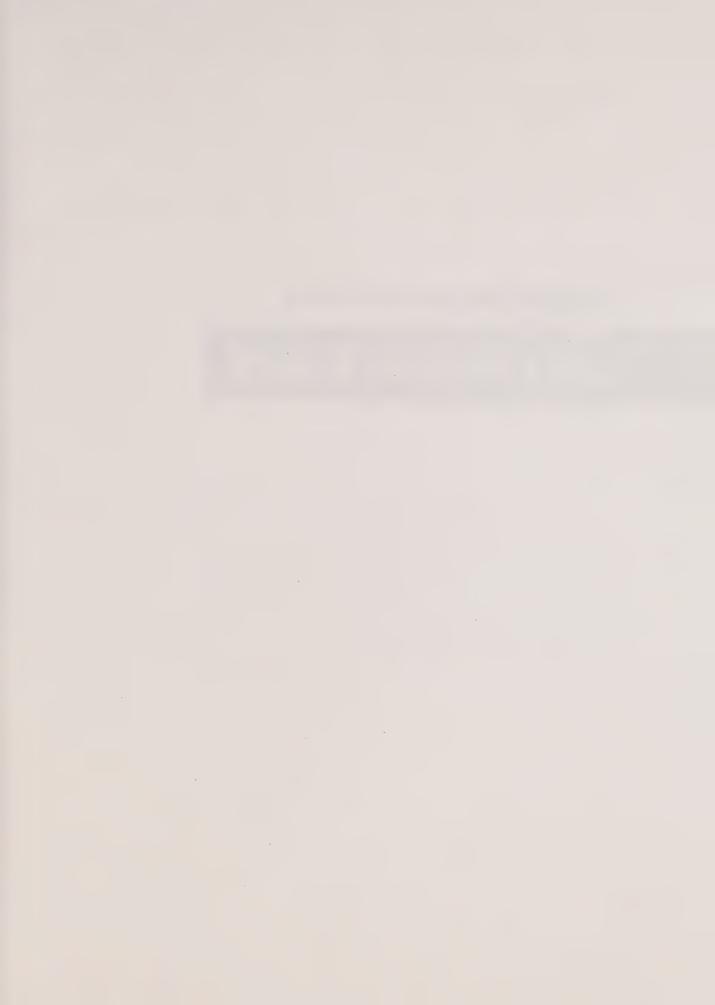
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# Avril et octobre 1997

Avant-propos et Points saillants





 $\dot{\mathsf{A}}$ l'honorable Président de la Chambre des communes :

J'ai l'honneur de vous transmettre ci-joint mon premier rapport de 1997 à la Chambre des communes, lequel doit être déposé à la Chambre en conformité avec les dispositions du paragraphe 7(5) de la Loi sur le vérificateur général.

Le vérificateur général du Canada,

L. Denis Desautels, FCA

OTTAWA, le 7 octobre 1997

 $\odot$  Ministre des Travaux publics et des Services gouvernementaux Canada 1997 No de catalogue FA2–1997/2–1 ISBN 0–662–63164–1

Dans le présent rapport, le genre masculin est utilisé sans aucune discrimination et uniquement dans le but d'alléger le texte.

Le Rapport d'avril et d'octobre 1997 comporte 21 chapitres ainsi qu'un Avant-propos et Points saillants. Pour mieux répondre aux besoins de nos clients, il est disponible sur divers supports. Pour obtenir d'autres documents ou les obtenir sur un autre support, voir la Table des matières et le bon de commande à la fin du présent

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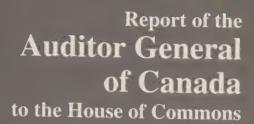


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Corpraises

Publications

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Maintaining a Competent and
Efficient Public Service

**April 1997** 



Report of the Auditor General of Canada to the House of Commons

Chapter 1
Maintaining a Competent and
Efficient Public Service

This April 1997 Report comprises 10 chapters and a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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# Chapter 1

Maintaining a Competent and Efficient Public Service



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# Maintaining a Competent and Efficient Public Service

Assistant Auditor General: Maria Barrados Responsible Authors: Alick Andrews and Otto Brodtrick

## **Main Points**

- 1.1 The public service's effectiveness, and the efficiency with which it carries out its functions, are crucial to the quality of governance and to the economic, social and political health of the country.
- 1.2 About 500,000 men and women have some form of employment in the federal public sector; about 207,000 of those constituted the traditional public service as of March 1996. The federal public service is an institution under pressure to change and adapt: pressure from Canadians, the economic-political environment, and advocates of management reform. All participants in our study were convinced of the importance of building on the strengths of the past to ensure that Canada enters the twenty-first century with a modern, world-class public service.
- 1.3 Particular attention needs to be given to renewing and rejuvenating the public service work force; resolving long-standing human resource management issues; establishing a more constructive dialogue on performance and partnership; and continuity of leadership and persistence in moving forward.
- 1.4 The public service faces the challenge of identifying and filling the gaps resulting from recent departures, as well as building the human resource capacity to meet new challenges and provide for a strong public service in the future. Problems with three of the important personnel systems need to be addressed. Various attempts have been made to modernize them but more needs to be done.
- 1.5 Improved ways of dealing with shortfalls in administrative performance need to be found. An effective public service needs a Parliament and media that can fairly discuss errors in the context of overall performance.
- 1.6 Persistent and ongoing effort is required to address these challenges. Further discussion and debate are required on the future size and tasks of the public service and on the organizational approach to take.



## Introduction

- 1.7 Canadian society and its institutions are under pressure to change.
  This study examines one of those institutions the federal public service and the challenges it faces.
- 1.8 Considerable attention has been given in Canada to addressing these challenges through reforming the federal public service. Public Service 2000 (PS2000), announced in 1989, proposed a new management approach, one that stressed results supported by appropriate process, judgment within reasonable rules, and innovation while managing risk. As originally planned, it appeared to have the potential to address specific human resource and other management issues that needed attention.
- 1.9 PS2000 has been absorbed into a broader renewal exercise. A new government introduced a fundamental review of government programs and significantly reduced expenditures. More recently, deputy minister task forces examined a range of issues, including service delivery models, the future of the public service, management of overhead services, values and ethics, management of horizontal policy issues, and strengthening of the policy-making capacity.

#### Focus of this study

1.10 From time to time, the Office of the Auditor General has examined public service management and reform issues, including performance, values, organizational learning and innovation. One of these studies, in 1983, dealt with constraints to productive management. It identified the impact of political priorities on the management process, the degree to which managers have to cope with administrative procedures, and the

disincentives to productive management that are characteristic of the public service. It also noted that certain constraints are part of the nature of government and may be difficult to change.

1.11 Objective. This present study (see About the Study) was undertaken to draw to Parliament's attention some of the areas that we believe are particularly important to the continued well-being of the Canadian federal public service. This Office shares Parliament's interest in maintaining a competent and efficient federal public service that will serve Canadians well, now and in the future.

# The Case for a Vigorous Public Service

### What is the federal public service?

- 1.12 According to a Statistics Canada report, published in 1996, about 500,000 men and women have some form of employment in the federal government and government corporations (see Exhibit 1.1). This includes everyone who is employed to carry out the responsibilities of the federal government: public servants in departments, employees of Crown corporations, and members of the military and the RCMP. In the eyes of many Canadians, this is "the federal public service", although a technically more correct label for it is "the federal public sector".
- 1.13 Our focus in this study is on the traditional federal public service, which comprised about 207,000 people in March 1996 (see Exhibit 1.2) and is a subset of the federal public sector. Public servants are employed under specific pieces of legislation that define the public service of Canada. Although our analysis deals with the public service, much of what we say may well apply to a significant portion of

This Office shares
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efficient public
service.

#### Maintaining a Competent and Efficient Public Service

the broader federal public sector. Public sector organizations, although technically outside the public service, can still have strong public service traditions as they carry out their work in the public interest.

# What is the purpose of the public service?

1.14 The public service is part of a larger system of governance and, as such, it affects and is affected by the other elements of this system. The government makes public policy and the public service manages its implementation. In a democracy such as ours, the making of public policy is the stuff of politics — mobilizing, focussing, articulating, and compromising among the interests of individual Canadians through the mechanisms of the media, political

parties, special interest groups and the electoral process, all within a framework of political institutions and traditions.

- 1.15 The purpose of the public service is to support ministers by carrying out policy analysis and bringing forward policy proposals designed to achieve government objectives, and by translating policy decisions into action. These actions may be carried out by the public service itself, other parts of the public sector, or others.
- 1.16 The public service acts in the interests of Canadians as identified and defined by those who are elected to govern. The public service reflects Canadians' joint purposes, past and present, and owes its existence and development to the common values they hold. Today's public service, with its

Exhibit 1.1

Federal Government and Government Business Enterprise Employment, 1990–91 to December 1995

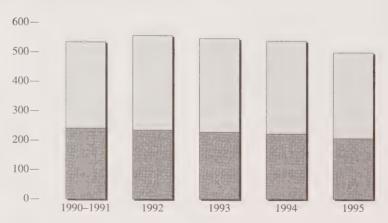
The public service acts

in the interests of

Canadians.

- Additional Employment included in Statistics Canada's Universe
- Treasury Board Secretariat's Employment Universe

# Number of Employees (Thousands)



### Note:

**Treasury Board Secretariat Universe:** This includes employees of departments and agencies listed under Schedule 1, Part 1 of the *Public Service Staff Relations Act.* This does not include National Defence military personnel, RCMP uniformed personnel, government enterprise personnel, and personnel of corporations and agencies for which Treasury Board is not the employer.

Statistics Canada Universe: This includes total federal government and government business enterprise employment (National Defence military personnel, RCMP uniformed personnel, government enterprise personnel, Public Service Commission student employees and personnel of corporations and agencies for which Treasury Board is not the employer)

Source: Public Sector Employment and Wages and Salaries, Statistics Canada Catalogue no. 72–209, 1990–91 to 1995

structure and variety of activities and services, mirrors Canada's history and the needs Canadians have chosen to address through the political arena. Its effectiveness, and the efficiency with which it carries out its functions, are crucial to the quality of governance and to the economic, social and political health of the country.

1.17 A ministerial council of the Organization for Economic Co-operation and Development (OECD) has concluded that global economic integration will make an effective public service increasingly important to the performance of the private sector. In other words, an efficient and competent public service is one of the institutional structures that contributes to effective economic activity. As such, it helps Canada compete with

countries that have a similarly well-developed public service, and provides Canada with a competitive advantage over those countries that do not.

#### What does the public service do?

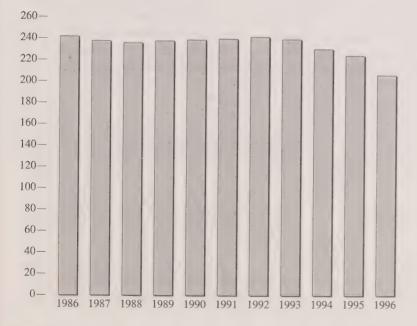
1.18 One principal role of the public service is to provide policy advice to ministers. This role is carried out primarily by the more senior members of the public service, with staff support. It involves such matters as definition of issues, consultations with interested parties, identification of options, analysis, consensus building, consultation with other sources of policy expertise, and development of recommendations.

**1.19** Another role of the public service is to deliver a wide range of services, and

Exhibit 1.2

Number of Federal Public Servants in Departments and Agencies, March 1986 to March 1996

# Number of Public Servants (Thousands)



#### Note:

This includes employees of departments and agencies listed under Schedule 1, Part 1 of the *Public Service Staff Relations Act*. This does not include National Defence military personnel, RCMP uniformed personnel, government enterprise personnel, and personnel of corporations and agencies for which Treasury Board is not the employer.

Source: Treasury Board Secretariat – Employment Statistics for the Federal Public Service, April 1, 1995 to March 31, 1996 apply the regulations that result from public policy decisions. On any given day, public employees deliver many services, from customs services to ice breaking, and from agricultural research to food inspection. These represent some of the goods and services that Canadians, as represented in Parliament, have decided to provide for themselves through delivery by the public service.

- 1.20 The third role of the public service is to deal with issues that never make their way onto the public and political stage. These administrative practices are developed in the context of the administrative framework legislated by Parliament.
- 1.21 To summarize, what the public service must do, and do well, is to propose policies, manage programs and services, and develop and implement administrative practices.

#### A competent public service

1.22 To be competent and effective, a public service needs individuals with the requisite commitment, skills, knowledge and experience. As an organization, it also needs the ability to learn, and to adjust and renew itself in the face of continuing rapid change.

### An efficient public service

1.23 An efficient public service is one that carries out its functions in the best possible and least wasteful manner. This means always working to improve the way things are done. In the absence of market force incentives, the public service has an even greater obligation to make good use of resources and available instruments in doing its work. It must innovate, learn and improve.

#### Public service values

- 1.24 Common values, strongly held, are a critical aspect of a competent and efficient public service because public administration relies on judgment. Many government activities defy detailed description of all possible choices and results. There is usually not one single clear option, and in many cases multiple options exist with a range of possible results. Separate constituencies may have different, often conflicting expectations about what government programs should achieve, and politics is about reaching consensus through creativity and compromise.
- 1.25 Public administration is about managing toward goals that may be individually imperfect but on the whole are politically acceptable. Frequently, managers are confronted with imperfect and incomplete performance information and a glut of subjective opinions. Public service values provide the normative controls that guide decision making. In our view, the role of values is so critical that the quality of public administration varies in relation to the strength with which they are held. Therefore, the care and nurturing of the system supporting public service values is an issue of the first importance.
- act in the public interest, and to be politically neutral, anonymous, impartial, dedicated, professional, and loyal to the government of the day. It is expected to provide efficient, effective and fair service to individuals, groups and society. There are inevitable tensions between some of these values. For example, there is a tension between fairness to society and responsiveness to individuals, and similarly, between due process and efficiency. Yet the essence of a public service is defined by these expectations. It

An efficient public service carries out its functions in the best possible and least wasteful manner; it innovates, learns and improves.

must manage these tensions and still follow high standards of professionalism and of service to elected officials and to citizens, even under conditions of rapid change.

- 1.27 These values are entrenched in the public service organizations, their mandates, their systems and practices, and in the people who hold positions in the public service. The values of the public service give it continuity over time and stability. The public service, through its institutional continuity, has an enduring connection with the society it serves.
- 1.28 The public service is expected to take a long-term view when advising on policy, since serving the public interest demands looking well into the future. In comparison, the life of a Parliament is relatively short. This presents a potential for tension, but it is a healthy tension because ministers should expect their policy advisors to consider all implications when recommending policy. Through its enduring connection with society, the public service reflects

society's values and interests. In return, it should enjoy legitimacy, trust and support.

# **Study Findings**

# The Pressure for Change

#### Pressure from Canadians

1.29 While discussion and debate about the size of government and the range and extent of public services goes on, most Canadians still expect their government to actively provide critical programs and services. Interestingly, Canadians continue to place considerable trust in public servants at the same time as they are increasingly distrustful of "government" overall. Opinion surveys (see example in Exhibit 1.3) point to the public's interest in improving governance by ensuring accountability for results, increasing federal government consultation with stakeholders, and increasing transparency in federal government decisions. These expectations imply that change is needed on the part of elected officials as well as public servants.

Canadians continue to place considerable trust in public servants.

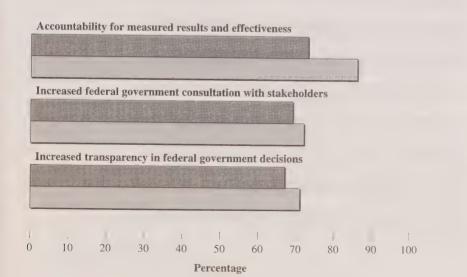


Exhibit 1.3

#### **Public Opinion on Improving** Governance in Canada

"Below is a list of criteria that might improve governance in Canada. Please rate whether you believe each of these criteria would or would not improve governance."

General public (n=1385)

\*Decision makers (n=248)



Source: Ekos Research Associates Inc., Rethinking Government April 1996 "Societies get the public services they expect. If people believe that government is bumbling, and bureaucratic, then that is what it will be. If, in contrast, they recognize public service for the noble calling it is, then they will end up with strong government."

(Note: Throughout the chapter, verbatim quotations from our interviews illustrate the material in the text.)

1.30 In addition to expecting consultation and transparency from their government, Canadians feel that the delivery of public services should be improved. One public opinion survey

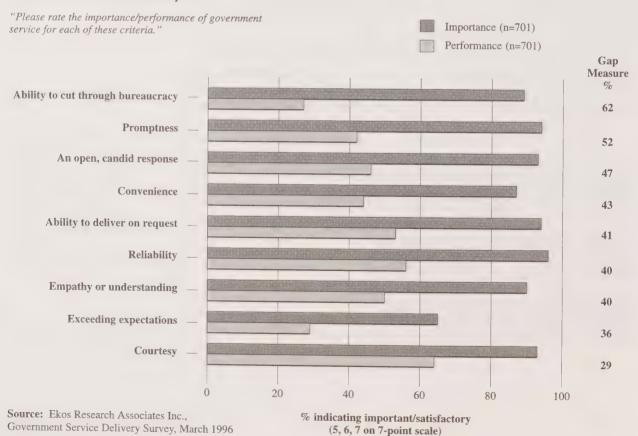
shows that Canadians consider services to fall short in promptness, reliability, convenience, openness and candor (see Exhibit 1.4).

# Pressure from the economic-political environment

1.31 The public service is subject to powerful international forces, including the globalization of capital, markets, knowledge, labour and social issues. Furthermore, there are rapid changes due to technology and international competition. These will increasingly require sound policy advice from well-trained and experienced people.

Exhibit 1.4

# Gap between Importance of Service Element and Performance of Government Delivery



"There isn't a department in the government that isn't impacted by what is going on in other countries."

- 1.32 The public service is also affected by the aging of the Canadian population, as well as the continuing discussion on the Constitution and the respective roles of the federal and provincial governments, which adds to a sense of pressure. Another major source of pressure has been the government's determination to deal with the large annual fiscal imbalances through cuts to government spending.
- 1.33 As far as anyone can tell, there will be no letup in the rate of change and in the intensity of pressure. If anything, the rate of change will likely increase. For a large and complex organization such as the Canadian public service, building-in the capacity to adjust and keep pace represents an enormous challenge.

# Pressure from advocates of "new public management"

- 1.34 Analysts of the public service in Western countries advocate efficiency-driven change in the public service, resulting in:
- a bold use of marketlike mechanisms for those parts of the public sector that cannot be transferred directly into private ownership;
- intensified organizational and spatial decentralization of the management and delivery of services;
- a constant rhetorical emphasis on the need to improve service quality; and
- an equally relentless emphasis on customer satisfaction.
- **1.35** A study by the OECD suggests that future public services will adopt this approach, resulting in a public sector that will:

- be less involved in direct service provision;
- concentrate more on providing a flexible framework within which economic activity can take place;
- regulate better, with more complete information about likely impacts;
- continuously evaluate policy effectiveness;
- develop planning and leadership functions to respond to future economic and social challenges; and
- take a more participative approach to governance.
- which are already practised in some jurisdictions challenge traditional views of a single public service dominating the public sector. They suggest a vision of a public service in which a small corporate core, a number of quasi-autonomous public service departments, an arm's-length public sector, and the private sector work together to deliver the services that have traditionally been provided by a centralized public service.
- 1.37 The new approaches raise a number of questions that need attention and discussion. Some of them are: What kind of public service does Canada want? What part of society's work should be done in or by the public sector? What set of values should govern the provision of public goods and services? Should the public service focus exclusively on efficiency, or also satisfy other societal goals such as, for example, being representative of the population as a whole in its composition? What should be the criteria for the migration of public service functions to the private sector?
- **1.38** These questions about approaches to public service and public management

The capacity to adjust and keep pace represents an enormous challenge.

deserve debate with all stakeholders in order to agree on the nature of the Canadian public service as it evolves toward the future.

### The Public Service Today

1.39 The public service today reflects not only the results of long-standing traditions and practices, but also of recent initiatives to reduce budgets and introduce reforms.

#### A portrait

- 1.40 Exhibit 1.2 shows that the number of public servants has declined steadily from over 240,000 in 1992 to about 207,000 in March 1996. The present size and composition of the public service is the result of successive downsizing initiatives after a long period with little turnover. In particular, recent budget reductions resulted in early retirement and departures of thousands of public servants. In 1995–96, for example, there were almost 20,000 separations (indeterminate employees) from the public service. compared with fewer than 10,000 in each of the three preceding years (see Exhibit 1.5).
- **1.41** The Public Service Commission, in its 1995–96 annual report to

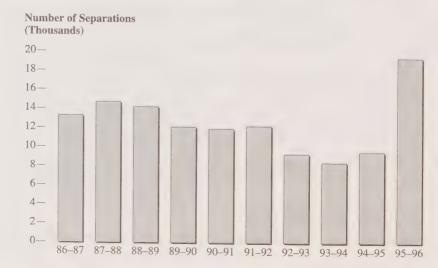
Parliament, provides the statistical portrait of the people who make up today's public service. The largest proportion of them work in four large departments: Revenue Canada, National Defence, Human Resources Development Canada, and Public Works and Government Services Canada. The Commission also reports that the public service is increasingly made up of professionals, with improved representation of women and improved bilingual capacity.

- 1.42 The same report points to a decline in indeterminate hiring and an increase in term appointments. For example, just four percent of appointments to the public service between April 1995 and March 1996 were for indeterminate employment. The others were for temporary work, including student employment.
- 1.43 The Public Service Commission reports that the age structure of the public service is changing markedly. Exhibit 1.6 shows a comparison of the sizes of different age groups in 1986 and 1996. The most recent age profile shows a concentration in the middle age group, with fewer younger workers and fewer older workers. It is particularly noteworthy that, in 1996, less than

Exhibit 1.5

Separations (Indeterminate Employees) from the Canadian Federal Public Service, 1986–87 to 1995–96

Source: Treasury Board Secretariat, Human Resource Branch, Analysis, Research and Compensation Group, November 1995; Employment Statistics for the Federal Public Service, April 1, 1995 to March 31, 1996, TBS



9 percent of public servants were under 30 years of age, compared with almost 17 percent in 1986. This, combined with the recent downsizing and the resulting loss of the experience of those who retired, raises the concern that the public service is not adequately renewing its skills and that it has experienced a loss in its knowledge base. Further, it raises the question of the contribution the public service is making to developing the future leaders of Canadian society.

1.44 Many public servants feel under growing pressure to take on more work and to meet new and increasing demands, all the while with fewer resources. Their salaries were frozen for over five years, and recent increments are viewed as modest at best. One senior official suggested that the new expectations amount to a demand to produce "cheap excellence" — service that is world-class but that should cost next to nothing. These factors, in addition to continued downsizing and the introduction of new program delivery structures, have left a work force that feels less secure, less valued, and weakened in its capacity to meet changing demands.

### A changing role and fewer resources

1.45 Program Review was announced in the February 1994 Budget as a strategic review of government operations to "get government right". It was also meant to help restore fiscal responsibility and bring the federal deficit under control. The review would "provide a rational basis for a significant transformation of the federal government. The goal is a federal public sector that works smarter, spends smarter and gives Canadians more of what they genuinely need." Financial targets were set over a three-year period and individual entities were given the responsibility to meet these targets according to their own priorities. The process was directed by ministers and carried out by the central agencies and senior public servants.

"We need to get our program structure focussed on the things the federal government absolutely has to do, and invest in the people, the programs, and the institutions we need to deliver them. Do it in the most innovative way and in ten years we could easily be renowned as the best government in the world."

The work force feels less secure, less valued, and weakened in its capacity to meet changing demands.

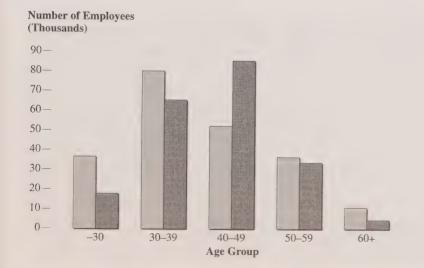


Exhibit 1.6

Aging of the Federal Public Service – Federal Public Servants by Age Group, 1986 and 1996

1986

1996

Source: PSC and TBS Annual Reports

The goal of simplifying the government personnel regime has not yet been realized.

- **1.46** A series of six guidelines was developed to assist departments and agencies in reviewing their activities (see Exhibit 1.7).
- 1.47 These six questions, and the order in which they were asked, demonstrate the two main thrusts of the initiative: first, to redefine the program responsibilities of the federal government; and second, to reduce their cost. Program Review has had a significant impact. It reduced government expenditures as well as the size of the public service. It also reinforced the message that there were limits on the government's ability to undertake new programs and initiatives.
- 1.48 The success at redesigning programs was uneven. Some departments, such as Transport Canada, have been cited as models of reducing expenditures and redesigning programs (see Exhibit 1.8). Others are beginning the process of rethinking the functions of their departments.
- **1.49** One of the consequences of Program Review is that managers are being encouraged to focus more on results than inputs. The underlying strategy of

shifting the focus to results was to also change supporting systems and processes.

# **Burdened by cumbersome personnel systems**

- 1.50 The White Paper Public Service 2000: The Renewal of the Public Service of Canada, issued by the government in 1990, emphasized the goals of improving service to Canadians and of having a more people-oriented public service. Seven years after PS2000 was announced, there is a general consensus that the objective of simplifying the government personnel regime has not yet been realized, in spite of reforms introduced by the Public Service Reform Act of 1993.
- Board's personnel manual, now partly on CD-ROM, and the Personnel-Pay Input Manual total more than 12,000 pages of rules, instructions, guidelines and directives, including some 70 collective agreements and classification and job evaluation standards. There are still some 840 rates of pay and more than 70,000 rules governing pay alone. In addition, the Public Service Commission and departments have developed rules that affect personnel management.

#### Exhibit 1.7

Six Guidelines of Program Review

The Program Review asks departments to review and assess their activities and programs against the following guidelines:

- 1. Public Interest Test Does the program area or activity continue to serve a public interest?
- 2. Role of Government Test Is there a legitimate and necessary role for the government in this program area or activity?
- 3. Federalism Test Is the current role of the federal government appropriate, or is the program a candidate for realignment with the provinces?
- 4. Partnership Test What activities or programs should or could be transferred in whole or in part to the private/voluntary sector?
- 5. Efficiency Test If the program or activity continues, how could its efficiency be improved?
- 6. Affordability Test Is the resultant package of programs and activities affordable within the fiscal constraints? If not, what programs or activities would be abandoned?

1.52 The rules lead to a large volume of personnel transactions that require significant administrative effort and talent to process. Not surprisingly, public service managers are frustrated with the administrative burden and apparent inflexibility of the personnel system. Yet they realize that any effort at simplification needs to take into account the need for "due process", the values of a professional public service, and an appointment system that is protected from partisan politics.

### A climate of uncertainty

- 1.53 Recent changes within the federal government have served to create a sense of collective uncertainty about what it means to be a federal public servant, and individual uncertainty about the wisdom of choosing a public service career. A profound change in attitude is apparent.
- 1.54 The reform initiatives of the last few years are viewed by many as having fundamentally changed the nature of the "public service contract." Many public servants believe that the implicit employee contract, which trades off security of tenure during satisfactory performance for neutrality and non-partisan loyalty to the government, has been broken. For support of this view, they point to the government's decisions to change legislation to modify security of tenure in order to permit downsizing.

1.55 Others have argued that there never was such an implicit contract. Instead, a long period of unprecedented public service growth from the 1940s to the 1980s helped reinforce the idea of security of tenure. Later events, such as the Government Work Force Adjustment Directive of 1991, had the same effect. In any case, the downsizing of government has demonstrated that the assumptions held by many about the security of employment do not reflect the current situation. For many public servants, this redefinition of the employment relationship has contributed to a sense of uncertainty about their future.

"True, a lot of people are leaving because of the uncertainty, but they also have in the back of their mind that their work is not valued."

"There is a definite sense that people just don't feel that anyone cares anymore."

many told us, used to be more than just a job: it was an opportunity to make a difference. Now, they say, working in the public service is a job like any other and a discouraging one at that. The number of front-line and middle managers who would not choose to become public servants again, given that choice, has gone up over the last six years (see Exhibit 1.9). In the eyes of its members, the public service falls short in opportunities for personal growth and development, job

Working in the public service, many told us, used to be more than just a job: it was an opportunity to make a difference.

The goal was to redefine the role of the Department, to reduce its size and, in the process, still provide effective services at affordable cost. Officials of the Department, supported by staff, analyzed and explored existing policies. They then presented policy alternatives. The Minister took selected proposals through the political process. The Deputy Minister then moved to implement the changes in the Department.

The case illustrates the importance of collaboration among the Minister, Deputy Minister, and departmental staff. The courage to act and the willingness to participate in a common effort is a powerful formula for achieving results. This initiative is by no means complete, but it is well under way.

Exhibit 1.8

Canada

**Program Review at Transport** 

security, ability to serve the public interest, and income (see Exhibit 1.10). Our study indicates that many of those who have remained in the reduced public service feel that their future is uncertain and their performance and commitment to service unappreciated.

"You have quite a considerable population between the ages of 45 and 50 who are at best hanging on to their job, and looking for the right timing rather than get unceremoniously dumped. That has to spell disaster for running a program."

1.57 This current climate of uncertainty in the public service is worrisome on two counts. First, as the morale of public servants suffers, so too will their commitment. Second, public service values — which many public servants associate, rightly or wrongly, with the idea of a "professional" or continuing public service — are at risk when many of them feel that the government has not kept its part of the "contract".

#### A beleaguered executive

**1.58** The most-senior managers feel least uncomfortable about their career

choice (see Exhibit 1.9), even though many of them, including several deputy ministers, have recently left the public service. This is borne out by comments from the senior executives at the next level. They feel that while they continue to deal with the stress of downsizing in their departments, their deputy heads have moved on to new policy development as if the downsizing challenge were behind them.

1.59 All executive-level managers are concerned, however, about the declining morale of employees. In a recent survey of the executive group, its members expressed strong concern about decreasing commitment, lack of recognition and eroding morale. The deputy minister task force on service delivery models identified three explanatory factors for this decline in morale: employees feeling undervalued, the climate of uncertainty, and having to meet high expectations with diminished resources.

1.60 As a group, executives view themselves as under stress because of the slow evolution of human resource policies, strategies and programs. They are also anxious because of, on the one hand, loss of staff due to downsizing and, on the other, the siphoning off of

#### Exhibit 1.9

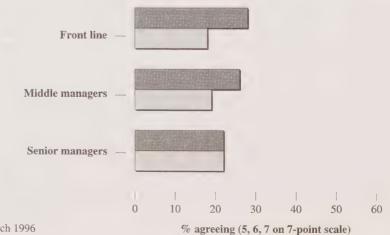
#### Morale in the Public Service

"If faced with the same career decision again, I would NOT choose to become a public servant."

1996 (n=1202)

1990 (n=1248)

Source: Ekos Research Associates Inc., Government Service Delivery Survey, March 1996



marketable specialists and professionals into the private sector (see Exhibit 1.5), where pay and benefits are typically higher. Adding to these anxieties is the need to cope with rapid change, overwork, high performance expectations, and a sense of uncertainty about their own future in the public service. Yet this is the very group who, with their deputy ministers, must be an example and provide leadership for the work force.

"What bothers senior public servants is not only the freeze on pay, but the freeze on opportunities, on doing new, interesting and innovative things. That's the message I'm hearing all the time. And when people feel unappreciated, bored, and frustrated with their job, they then become aware that they are also under a salary freeze. It reinforces discouragement."

**1.61** In summary, the public service today is an institution under stress. It is

Rating of Federal Public Service (n=1,385)

Importance (n=1,385)

smaller than it has been, increasingly middle-aged, difficult to enter, unclear about its role, and has fewer opportunities for promotions (see Exhibit 1.11) and fewer resources to carry out its responsibilities. It is subject to ongoing program reform and new forms of program delivery. And it is encumbered by rule-bound personnel systems. The public service today operates in a climate of uncertainty, its executive group feeling beleaguered and concerned about its own declining commitment, motivation and morale.

Executives are under stress because of the slow evolution of human resource policies, strategies and programs.

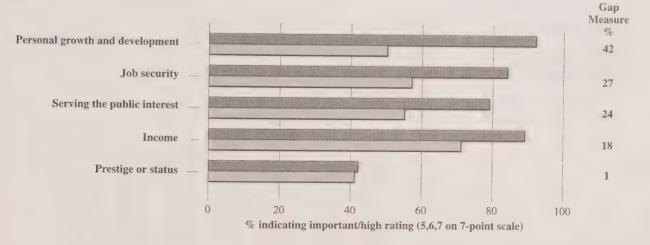
### **What Needs Particular Attention?**

1.62 Many public servants feel that traditional public service values and approaches are under siege. Others argue that this is an opportunity to set a new course, that out of the stress of rapid downsizing and the pressure to reform will come a streamlined, renewed and strengthened public service. Whether this more optimistic prediction turns out to be

Exhibit 1.10

Gap between Importance of Job Satisfaction Criteria and Rating of Federal Public Service Job Satisfaction

"Please rate how important each of the following criteria is to your job selection decision/How would you rate a job in the federal public service according to the following criteria?"



Source: Ekos Research Associates Inc., Rethinking Government April 1996

accurate will depend on the resolution of a number of outstanding issues and on strength of resolve in building a new public service.

- 1.63 People are the principal resource of the public service, and managing them well is the key to its ability to cope with new and evolving demands. More than any other factor, good management of the public service involves maintaining this human resource with its competencies and its core values of serving Canadians. No proponent of change wants to erode these values and undermine the commitment of the public service to act in the public interest.
- **1.64** Based on the results of our study, the following areas deserve particular attention in order to maintain a competent and efficient public service:
- renewal and rejuvenation of the public service work force;
- resolving long-standing human resource management issues;
- establishing a more constructive dialogue on performance and partnership; and

• continuity of leadership and persistence in moving forward.

# Renewal and rejuvenation of the work force

- 1.65 The leadership of the public service recognizes that it needs to focus on its people. The Public Service Commission, in its 1995–96 Report to Parliament, identified the shifts in demographics that have occurred. It pointed to limited recruitment, which has helped produce a public service that is increasingly middle-aged. Programs designed to attract highly talented and motivated graduates to join the public service are not working well, according to the most recent report of the Clerk of the Privy Council to the Prime Minister. In addition, the large numbers of recent departures from the public service have left gaps in expertise and knowledge in many areas. In our view, a particular concern should be identifying and filling these specific gaps as well as building the overall human resource capacity to meet new challenges and provide for a strong public service in the future.
- 1.66 Strengthening the policy capacity. Strengthening the public service's ability to provide sound policy advice is an area that needs a longer-term

Exhibit 1.11

Promotions within the Federal
Public Service, 1985 to 1995–96

Programs designed to

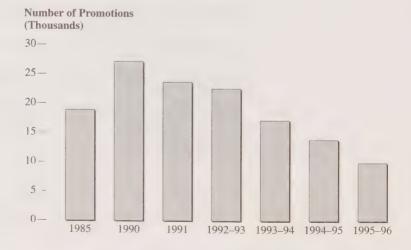
attract highly talented

graduates to join the

public service are not

and motivated

working well.



Source: PSC Annual Reports

solution. Developing policy and providing policy advice to ministers is considered a key role of the public service. This advice is provided by the most senior public servants, supported by the analytical work of their departments. The Clerk of the Privy Council, in a report that preceded the most recent downsizing exercises, expressed her concern about the diminished policy capacity in government. Since then, downsizing has further weakened this function, because early retirement incentives encouraged some of the most experienced individuals to leave. This is a concern because it affects the ability of the public service not only to provide high-quality policy advice but also to maintain the pool of men and women from whom the leaders of the public service have traditionally been drawn.

1.67 One of the deputy minister task forces was specifically asked to examine the policy capacity in government, in recognition of the fact that "all might not be right with the policy capacity of the federal government." The task force confirmed the importance of a strong policy capability in government and acknowledged some of the concerns. It was concerned that insufficient time and effort are devoted to reflection and longer-term interdepartmental discussion among senior officials. The problem, as one commentator put it, is one of "the urgent driving out the important." Central to the recommendations made by the task force is the need for renewal and improved recruitment into the public service, and for partnerships with the external research community, as ways of rebuilding the public service's policy capacity.

**1.68** The public service is now relying increasingly on consultants, sometimes former public servants, and external

organizations to do this analysis. There is potential to gain good value by drawing on former public servants. External consultation is and always will be a necessary part of policy formulation. However, while government is currently meeting its policy analysis requirements in the short term, the "contracting-out" approach does not provide for developing the next generation of policy advisers and senior public service leaders.

1.69 Strengthening competence and commitment. The knowledge and commitment of its people are the public service's most important assets, which must be rebuilt and updated to keep pace with changing conditions. This poses a challenge to management, and to the various training and development programs of the public service.

1.70 A number of services to the public have moved from the traditional public service to other parts of the public sector, the private sector or the not-for-profit sector. Such a newly defined structure would, early on, have to define the skill set that is required to ensure its smooth operation, such as managing contractual obligations and ensuring that accountability is working and proper service is delivered.

# Resolving long-standing human resource management issues

1.71 While PS2000 specifically sought to improve human resource management in the public service and to reduce the heavy burden of rules and procedures, considerable effort has resulted so far in little change. Program Review reduced the size of the public service but did not address a number of the outstanding people-management issues. This was left to other change initiatives.

**1.72** Problems with three of the most important personnel systems need to be

The knowledge and commitment of its people are the public service's most important assets.

Program Review reduced the size of the public service but did not address a number of the outstanding people-management issues.

addressed. Various attempts have been made to modernize them, but more needs to be done to improve the systems of classification and job evaluation, staffing, and collective bargaining.

- 1.73 The classification and job evaluation system. This initiative was planned as a conversion to a modern classification and job evaluation system, and was an important part of public service renewal. In 1990 we noted the relatively high number of occupational groups in certain departments and agencies. We reported that six departments had at least 40 occupational groups, and that one of them had 56. We concluded that a fundamental change was necessary.
- 1.74 At the time, we recognized that this represented a significant challenge, particularly while respecting the requirement for pay equity. As we reported in May 1996, this challenge, including simplification of the occupational group structure, has been only partially met, although discussions are continuing among Treasury Board, unions and departmental officials, and efforts are under way to complete the initiative.
- 1.75 The staffing system. As a result of the *Public Service Reform Act*, there has been a move toward simplifying the system of attracting and recruiting people, and matching them to suitable work. However, studies and reviews by the Public Service Commission show that neither managers nor employees are satisfied with the existing system. Managers feel that the system should be more efficient and more timely. Employees feel the current system is not consistently fair and does not consistently protect merit.

### 1.76 The collective bargaining system. Over the last 20 years, collective bargaining rights have been modified or suspended for a total of almost 10 years. Legislation has modified or suspended agreements and salary and working conditions. Collective bargaining is expected to resume in 1997. The process and scope of bargaining has also changed over the years. A process has developed in which job security under the Work Force Adjustment Directive is "negotiated" independent of salary and other work conditions. Management and unions have not consistently collaborated in resolving human resource management problems. On the positive side, unions are now actively participating in the development of the Universal Classification Standard and the government initiative to develop a human resource framework better suited to the

#### 1.77 These issues need resolution.

management of scientific personnel.

Action on these three issues holds the promise of freeing up the process of managing people in the public service. Yet there are underlying factors that can influence the resolution of these issues. The "new public management", for example, focusses strongly on the importance of efficiency and responsiveness. It would argue that the pay of people should be based on local market conditions, rather than on public-service-wide pay rates.

operations out of the public service currently offers the potential for more streamlined operations, because of troublesome systems and processes in the management of people in the public service. However, such devolution needs to be done on its own merits, not simply to avoid bureaucratic constraints in the public service. While conscientious efforts

have been made to improve human resource management in the public service, its leaders and their political masters need to address these constraints.

# Establishing a more constructive dialogue on performance

- 1.79 Public servants are accountable to ministers for administration. Ministers answer in the House of Commons for the discharge of all their responsibilities, including those they have delegated to others. The function of the opposition is to challenge the performance of the government, and hence the minister. This challenge is an essential part of our system of government.
- 1.80 Government is getting more complex, and many administrative matters are far removed from the minister's direct purview. The traditional ideals that the minister is all-knowing, and that public servants must do nothing to potentially embarrass the minister become more and more difficult to achieve.
- 1.81 Public servants are being asked to do more with less and to assume more risk; ministers are subject to scrutiny by the opposition and seek to reduce risk. These pressures work against full disclosure of shortcomings as well as successes, and thereby limit constructive discussion on how change can be made.
- 1.82 Canadians expect the public service to be more open and transparent in its aims and operations. They expect explanations of what it does, why, and at what cost. Transparency and openness do not mean "reporting everything". Sheer volume would make that impractical for everyone concerned. Rather, meaningful accountability includes reporting what is relevant and in the public interest, with other information made accessible on request to anyone who needs it. Only

when citizens and public servants better understand each other's situations will it be possible to move toward an informed dialogue and to make changes that meet common expectations.

"The idea is to encourage more and more people to fulfill their responsibilities as citizens and for government to be especially sensitive to the voices of these citizens — not merely through elections but through all aspects of the design and implementation of public policy."

which public servants and public service managers can make changes without having to address some of the inherent tensions in the system. Shortcomings in service delivery elements such as courtesy, empathy or understanding, and reliability do not require more rules and controls, but require changes in attitude and approach. The size of the gap reported by the survey shown in Exhibit 1.4 suggests considerable room for improvement.

"The job of management is to support the employee at the front desk. The key support is to provide all of the information that the person will need to make valid assumptions, take risks, and make decisions. The front-line employee must have all the information she needs to take risks in a successful way."

1.84 As our audit on service quality discussed (September 1996, Chapter 14), public service managers were working to implement service standards in the principal services of government. But they were falling short in posting their service standards and actual performance against them. As we noted in that chapter, this was due to their reluctance to make publicly visible a negative result, which service managers felt would lead to

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embarrassment and lack of support. This illustrates the potential dilemma for public servants as they are asked to engage in a more constructive dialogue on performance.

The challenge facing the public 1.85 service is the way citizens and parliamentarians deal with shortfalls in administrative performance, which can and do occur. There are some lessons to be drawn from the government's Service Standards Initiative, which suggests developing a consensus on realistic standards to be attained. This means discussion, research and dialogue so that all the interested parties share in the decision on what is achievable. With this approach, public servants are not on their own in setting the goals. While the initiative focussed on those being served, there is no reason why public servants and ministers could not include members of Parliament in this dialogue.

"We should recognize just how much contact there is between the public servant and the citizen. We should be proud of what we've got. And we should expect that every once in a while a public servant may be having a bad day but that doesn't mean that we should do a full-blown inquiry, or sort of whip ourselves into a frenzy."

Continuity of leadership, and persistence, are required to bring about the implementation of needed change.

1.86 A key problem is how to deal with honest errors — those efforts that, despite the best of intentions, fall short of expectations. Where performance falls short of expectations, this should be seen as an opportunity to learn. Managers ought to be using the information gained to understand what the shortcomings were, and adjust their operations, taking this new knowledge into account. In some cases, expectations may have been unrealistic from the start, and better planning may be indicated.

1.87 An effective public service needs a Parliament and media that can fairly discuss errors in the context of overall performance. Where rules and control frameworks are too rigid or out-of-date, Parliament needs to be informed so that changes can be made. Instead of continuing the long tradition of exacting accountability for individual errors, a shift of focus to the nature of corrective action would shift the emphasis to improvement. Members of Parliament, the public and the media ought to demand in their scrutiny that this kind of correction occur. Indeed, it is perhaps the absence of learning rather than the absence of perfection that most warrants criticism.

# Continuity of leadership and persistence in moving forward

1.88 It is widely acknowledged that the public service is under stress and that changes are needed. What has proved difficult for the public service is to act vigorously on recommendations, with the notable exception of the Program Review initiative, which was driven by political will. Some senior people we consulted about implementation pointed out that there are many good ideas in the public service, but not the corresponding consistent bold implementation.

"We see rapid change and great complexity around us, but caution and limited flexibility in the way we work. This often results in slow, limited or no implementation."

1.89 Part of the reason for this difficulty is that one of the purposes of the public service is to ensure consistency, stability and "due process" in public administration. Another part is that the public service cannot implement boldly without political support.

"One of the principal constraints is political pressures. "Leadership" is good until the day it embarrasses the government, and officials have to work within the limits of what their ministers will accept."

- 1.90 A further reason for slow implementation is that champions of change are moved regularly and the process of defining policy and direction starts again. Frequent movement of leaders by rotating them through many senior positions, even though this may be for developmental purposes, makes it difficult for them to focus on long-term change initiatives. If there is also a departure of many senior, experienced people, including deputy ministers, the problem is exacerbated. Continuity of leadership, and persistence, are required to bring about the implementation of needed changes.
- 1.91 Directions for change have been mapped out over time, including studies done by the recent deputy minister task forces. The time is right to act on what has been learned.

# Conclusion

- 1.92 The participants in our study all were convinced of the importance of building on the strengths of the past to ensure that Canada enters the twenty-first century with a modern, world-class public service. The nature of that public service is being redefined. The provision of some services is being shifted out of the traditional public service. In addition, reform efforts are continuing to improve the efficiency and effectiveness of the public service.
- 1.93 At this time, the future size and tasks of the public service and of related public sector entities, and the

organizational approaches to be used, are still open questions. On a case-by-case basis, the government is making decisions on which functions should remain in the core public service and which should migrate elsewhere, and what the nature of their relationship with minsters should be. This warrants further debate and discussion.

- 1.94 The public service, regardless of its size and composition, must remain contemporary in its approach to management systems and procedures. Its recruitment and compensation, the use of technology, and the push to administrative efficiency need to be in line with those of other large organizations in Canada.
- **1.95** Four areas require particular attention:
- Renewing and rejuvenating the work force in the public service ensuring a vibrant public service for the twenty-first century.
- Resolving long-standing human resource management issues removing barriers to the management of people.
- Establishing a more constructive dialogue on performance dealing fairly and effectively with individual shortfalls in the context of overall performance.
- Continuity of leadership, and persistence in moving forward demonstrating perseverance in direction, and congruence between words and deeds.
- 1.96 Action is required because in the face of rapid change the public service cannot afford to stagnate. It may not get everything right the first time. It needs to explore, experiment and implement. And it needs to learn from its actions so that it can become more competent at changing, adapting and progressing, and at maintaining a productive fit with its changing environment.

The public service will need to engage in discussion with its partners: government, Parliament and citizens.

- 1.97 In resolving some of the more fundamental issues, the public service will need to engage in discussion with its partners: government, Parliament and citizens.
- 1.98 We have noted throughout this chapter that new realities are challenging government and its institutions. Fiscal pressures, globalization, new technology, complexity and accelerating change are all sources of pressure for change. In addition, budgets have been reduced and programs and staff significantly downsized. At the same time, public confidence in government has declined. Canadians criticize it as costly and unresponsive. They demand a competent and efficient public service that will serve them well, now and in the future.
- 1.99 Government has responded to these challenges with various studies, strategies and a range of initiatives. Through Program Review, it looked at the size, scope, composition and cost of departments and agencies. Through deputy minister task forces it explored the alternative service delivery structures and other areas. Through La Relève, a recently announced initiative, it is attempting to attract, retain and motivate a talented and dedicated work force.
- 1.100 As our study points out, persistent and ongoing effort is required to rejuvenate the work force, address a number of long-standing human resource management issues, develop a more constructive dialogue on performance, and maintain the public service as a vibrant institution.

### Treasury Board Secretariat's comments:

 The chapter provides a very good representation of the responsibilities of the public service, the environment in which it operates and the pressures it faces, and the high degree of

- professionalism that individual public servants bring to their responsibilities. We could not agree more that a "vigorous public service" makes a significant contribution, indeed is essential, to the well-being of Canadian society. It is also interesting to note that most of the issues identified by the Auditor General are not unique to the Government and Public Service of Canada, but are in fact variations of the same concerns facing most Western governments.
- The last few years have been difficult ones for public servants as they have been professionally and personally affected by changes in the priorities, programs and structures of the federal government. Yet, our very success in meeting our fiscal and Program Review objectives is due in large part to the skill, dedication and contribution of public service employees.
- With respect to the specific recommendations contained in this chapter, work is under way to address many of the issues identified. For example;
  - Renewing and rejuvenating the work force in the public service. We are developing and implementing the La Relève initiative, which is a series of service-wide and organizationspecific activities to ensure continuing leadership in the public service, to strengthen our policy capacity, to improve career mobility and development opportunities for employees and to provide a work environment that is both supportive of individuals and enables them to make their best contributions.
  - Resolving long-standing human resource management issues to remove barriers to the management of people. We are simplifying and modernizing our

- classification and job evaluation system, which will be a critical underpinning of other reforms to the human resource management framework; we have returned to collective bargaining after a six-year hiatus and we are working with the public service unions to simplify and improve the collective bargaining process itself. We recognize the need to examine other fundamental reforms and will do so.
- Establishing a more constructive dialogue on performance. Through the Improved Reporting to Parliament project, we are making the information we provide to Parliament on government plans, priorities and results achieved more accessible and more understandable. Sixteen pilot reports were part of this year's Main Estimates exercise. We continue to place emphasis on quality-of-service initiatives, a major component of which is the development of service standards in consultation with clients and citizens.
- Continuity in leadership and persistence in moving forward. We are addressing this partially through the La Relève initiative and programs to replenish and develop the leadership cadre of the public service; the President of the Treasury Board has established an Advisory Committee of private, voluntary and labour sector representatives to advise him on executive compensation issues; and action plans for the implementation of the deputy minister task forces have been developed. We recognize that change requires persistence and we are fully prepared to provide that commitment "over the long haul".
- Two recent publications that deal with many of these issues may be of interest to readers. They are "Getting Government Right: Governing for Canadians" (February 20, 1997) and "The Fourth Annual Report to the Prime Minister on the Public Service of Canada" (February 3, 1997).



## **About the Study**

### Objective

This study was undertaken to draw to Parliament's attention some of the areas that we believe are particularly important to the continued well-being of the Canadian federal public service. This Office shares Parliament's interest in maintaining a competent and efficient federal public service that will serve Canadians well, now and in the future.

### **Approach and Methodology**

The chapter is based on the results of discussions with some 125 executives and other individuals, mostly inside the public service. It is also based on the findings of other work carried out by our Office over time. It is further based on an extensive review of the public management literature, and consultations with researchers who work in the area of public administration. The study included focus group discussions, and meetings with provincial government officials, union executives and international practitioners.

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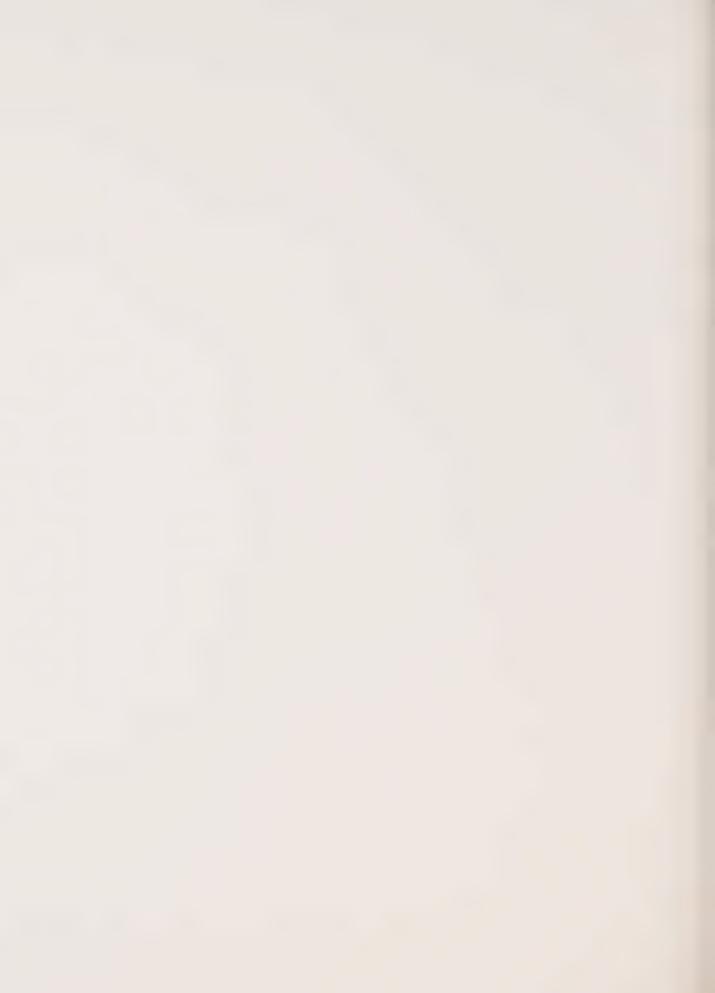


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Chapter 2
Financial Management:
Developing a Capability Model



Report of the Auditor General of Canada to the House of Commons

Chapter 2
Financial Management:
Developing a Capability Model

This April 1997 Report comprises 10 chapters and a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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# Chapter 2

Financial Management: Developing a Capability Model



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# Financial Management: Developing a Capability Model

Assistant Auditor General: Douglas G. Timmins Responsible Auditor: Hugh A. McRoberts

### **Main Points**

- 2.1 The environment within which the government is operating today is rapidly changing. The effects of limited resources, downsizing and delayering are placing greater demands on the government in providing services to Canadian taxpayers. Within this environment, the need for effective financial management has never been greater. Financial management plays a critical role in contributing to the government's achievement of its goals of reducing its costs and improving its financial position.
- 2.2 Despite the number of royal commissions, audits, studies and Treasury Board Secretariat initiatives over the years, achieving effective financial management in government organizations remains, in our view, a top priority that requires ongoing attention. With each Report of the Auditor General, we continue to observe and report to Parliament on significant problems, across a broad range of government operations, that occur as a consequence of failings in financial management.
- 2.3 These issues represent, in our view, a continuing basis of concern and raise important questions about the state of financial management in the government. Not the least of these is the question of whether our observations represent the type of failings that result from doing business in any large organization, or are symptomatic of more systemic problems in financial management. Additionally, some ministers continue to express to our Office their concern and frustration over the lack of appropriate financial information to support strategic decision making.
- 2.4 The Office of the Auditor General has had, as a long-standing strategic priority, the goals of encouraging better financial management within the federal government and improving the understanding of the role that financial management can and should play. It is for this reason that, in conjunction with the Treasury Board Secretariat, we have initiated this study. The objective of this study is to build on existing work to develop a modern framework that will describe key elements needed for effective financial management and that will provide a basis for assessing the state of financial management within departments and agencies.
- 2.5 This chapter is the first stage of a study designed to respond to the need for a revitalized financial management framework. It is intended to provide a basis for discussion among central agencies, departments and our Office. Once complete, the study will provide an agreed-upon framework to assess financial management capabilities and to improve the effectiveness of financial management in the federal government.
- 2.6 We are very encouraged by the recent initiative of the President of the Treasury Board in establishing an Independent Review Panel on Modernization of Comptrollership in the Government of Canada. The Office supports the work of the Panel, and we will take the results of its work into account as this study proceeds.



### Introduction

### The Purpose of This Chapter

"I have agreed to work with Treasury Board and the senior financial community to help make financial management more effective. This will include developing a framework of financial management and control standards, assessing the current state of financial management against these standards, determining the skill and experience requirements of financial staff, and helping develop specific measures to advance the state of financial management control."

November 1995 Report of the Auditor General of Canada

- 2.7 We have begun, in consultation with the Treasury Board Secretariat, a study of financial management in the federal government. The ultimate objective of the study is to develop a model of financial management that will permit us, the Treasury Board Secretariat and departmental managers to assess the financial management capability of departments against an agreed-upon standard.
- 2.8 This chapter represents the first step in that process. In this chapter, we briefly review some of the factors that have led us to undertake this endeavour. Second, we set out the scope of the project and propose a definition of financial management and its objectives in the government context by way of a Financial Management Activity Model. Third, we propose an approach to developing a methodology for assessing financial management capability. This methodology is based on an adaptation of the Software Engineering Institute's Capability Maturity Model, which was developed by it to assess software development firms.

We believe that this approach can be successfully applied to create a Financial Management Capability Model.

2.9 At the end of this chapter, we indicate the steps in the development process that will need to be followed from here. Critical among these is widespread consultation with financial and operational managers throughout government. This step is important both to take advantage of their wisdom and experience as we develop the Model and to help ensure that it is widely accepted by the financial community once it has been completed. The ideas in this chapter are not being presented as the final word. Rather, we hope that these ideas are seen as a first word and provide the basis for future discussion. Further information on the study's objectives can be found at the end of the chapter in the section About the Study.

### Why This Study?

### A long-standing concern

- 2.10 Despite a number of royal commissions, audits, studies and Treasury Board Secretariat initiatives over the years, achieving effective financial management across government organizations remains, in our view, a top priority that continues to require senior management attention. The effectiveness of financial management still varies among organizations and often within an organization over time.
- 2.11 The Office of the Auditor General continues to observe and report on significant problems, across a broad range of government operations, that occur as a consequence of failings in financial management practices.

  Examples include:
- a lack of financial information for managing resources and controlling costs,

In our view, achieving effective financial management across government organizations remains a top priority that continues to require senior management attention.

which results in decisions being made without knowing the financial consequences of those decisions. Illustrations of this weakness were reported in Chapter 17 of our September 1996 Report, "Human Resources Development Canada – Canada Pension Plan: Disability" and in Chapter 32 of our November 1996 Report, "Canadian Heritage – Parks Canada: Management of Historic Canals":

- instances of insufficient involvement of senior financial officers in important decisions, with significant operational and financial implications. An illustration of the consequences of this weakness was reported in Chapter 15 of our 1993 Report, "Department of Fisheries and Oceans: Northern Cod Adjustment and Recovery Program";
- inadequate information for management of fixed assets, which results in excess inventory. The estimated cost savings of eliminating unnecessary inventory could be up to \$1.25 billion. This example was reported in Chapter 23 of our November 1996 Report, "Materiel Management in the Federal Government"; and
- inadequate activity-based management information to support the determination of user fees. An illustration of the impact of this issue was reported in Chapter 32 of our November 1996 Report, "Canadian Heritage Parks Canada: Management of Historic Canals".
- 2.12 These observations and many others raise questions concerning the strength of financial management in the federal government. For instance:
  - Are financial controls adequate?
- Do managers fully understand what government programs/services cost?
- Do ministers and deputy ministers have the financial information, advice and support they need for decision making and

for meeting their obligations to account for the use of public money?

- Are accountability relationships clearly established and understood so that managers are held to account for the financial impact of their decisions?
- Does the management culture within the federal government understand, value and recognize the important role that financial management can and should play in assisting departments to achieve their objectives?
- Do the consequences flowing from failures in financial management provide an incentive for managers to pay attention to these issues?
- Are there impediments to effective comptrollership within the federal government?

### **Increased demand for financial** information

- 2.13 Increasingly, there is a demand for complete, accurate and timely financial information that, when combined with meaningful performance information, allows management and parliamentarians to put the cost of government programs in perspective. Some ministers have expressed to our Office their concern and frustration over the lack of appropriate financial information to support strategic decision making.
- 2.14 Similarly, as government moves to alternative forms of service delivery, the demand for reliable financial and performance information to support strategic decision making is expected to increase. Both financial and performance information will increasingly be required to support such decisions as the implementation of user fees to recover costs or to assess alternative program delivery strategies.

demand for complete, accurate and timely financial information.

Increasingly, there is a

## Systemic weaknesses or isolated instances?

2.15 Consideration of this issue raises one further question. Do the observations noted above signal serious systemic weaknesses in the structure of financial management, or are they merely isolated instances? On the one hand, if one judges the financial management capability of the government solely by the reports of financial management failings, then one could be led to be concerned. On the other hand, the Government of Canada is a very large organization in which many important financial management decisions are made every day. Viewed in this context, one could reasonably expect that even in an organization in which the overall level of financial management is satisfactory, a certain number of bad decisions could be made. This study is intended to provide a perspective that will permit us to put our observations in context and respond to the questions posed.

2.16 Current assessment. The Financial Administration Act, Treasury Board policies and Receiver General directives have established at great length, and often in great detail, the standards for financial management in the federal government. To date, financial management activities in departments and agencies have largely focussed on complying with directives from central agencies, adhering to control processes and ensuring that resources are used in compliance with legislative authorities.

2.17 In essence, many organizations have employed a largely mechanical approach to financial management functions. Although this approach may ensure that these functions are performed in accordance with established directives, it does not ensure that operational managers recognize and understand their

broader financial management responsibilities. Similarly, this approach does not ensure that financial management activities become integrated into departmental operations and assist the organization in achieving its intended results at "reasonable" cost in terms of human, technical and financial resources Nor does this approach enable the function to place the financial implications of decisions, directives or policies front and centre for management to consider. In other words, at the point where an organization makes significant operational decisions, financial management staff are not routinely asked to provide the analysis and advice for senior management to assess the financial consequences of these decisions.

2.18 To date, the effectiveness of financial management within government organizations has rested, to a large extent, on the strength, willpower and initiatives of individual senior financial officers. Yet such initiatives have not always been sustainable after those individuals have left the organization. In other words, an individual's initiatives are often not enough to "institutionalize" effective financial management within an organization.

2.19 In discussions with Treasury Board Secretariat officials, we agreed that based on the evidence currently available, neither we nor they could reliably answer the questions raised. At the same time, we agreed that more knowledge is essential to be able to put in perspective the failures in financial control that came to our attention, to provide a systematic basis for improving the quality of financial management, and to be able to provide information to Parliament on the control of the public purse. The purpose of this study is to develop a methodology that will permit a systematic assessment of the

This study is intended to provide perspective on some fundamental questions. financial management capabilities of departments and agencies.

### Developing a new approach

- In order to put financial 2.20 management issues in perspective, the Office of the Auditor General would like to be able to draw broad conclusions on the government's financial management capability. However, existing assessment methodologies have tended to follow a piecemeal approach — focussing on analyzing only particular aspects of financial management. They do not provide an analysis or assessment of the general state of financial management in the federal government. Although existing methodologies include criteria for effective financial management, they do not provide a tool for organizations to determine what type or level of financial management they need. Nor do they provide guidance to organizations on how to improve financial management functions, where necessary.
- Additionally, most of the existing approaches to assessing financial management have their origins in the private sector and tend to emphasize issues, concerns and expectations more appropriate to that environment than to the ongoing realities of public sector management. Put simply, in the private sector, management spends money in order to generate money. The measures used to monitor money spent versus money generated, such as net profit, return on investment and increased share values, are key performance indicators for managers that are closely monitored by them on an ongoing basis.
- 2.22 In the public sector, money is raised through taxes so that it can be spent to achieve the objectives of the government. For the public sector manager, money is one of several

- resources that are blended and brought to bear on program objectives. As such, financial information acts much like a fuel gauge — something to be consulted occasionally, and more often near the end of the trip to be sure that there will be enough fuel left to make it to the gas station. The more important information for the public sector manager relates the costs of program delivery to the degree of objective attainment. This information is more difficult to create and, if it were available, could be obtained only occasionally. All of this means that financial management in the private sector and public sector takes on very different forms and appearances. Although the forms may occasionally provide a comforting sense of familiarity looking from one sector to the other, their content is often significantly different.
- 2.23 Finally, the piecemeal approach to assessing financial management ignores the interrelationships of financial management and other components of organizational control, which together are essential for overall effective management of an organization. We believe that understanding these relationships is critical. Good financial management is more than just the sum of the pieces.
- 2.24 In saying this, it is not our intent to dismiss the work that has been done. The issues raised are important. Rather, our intent is to build upon the existing work and to give it a structure that will meet current needs.

#### New approaches to control models

2.25 The impact of technology and the flattening of the traditional organizational pyramid structure demand more reliance on control through informal means such as shared values, shared vision and open communication. As a result, in today's business environment, the term "control" has sometimes taken on a broader

meaning than just internal control over transactions and financial reporting. This growing (and possibly necessary) reliance on informal controls, based on shared values and effective communication, is important in compensating for reductions in formal checks and balances.

Additionally, these changes have placed increasing importance on strong and clear accountability arrangements supported by systems that will produce valid and timely information on results.

- 2.26 In response to this trend, the Canadian Institute of Chartered Accountants (CICA) established the Criteria of Control Board (CoCo). Its role is to provide guidance to organizations on designing, assessing and reporting on their control systems. This guidance reflects the broader concept of control as a key element of good management. It describes and defines control in a manner that goes beyond traditional internal accounting controls. It also includes criteria for overall effective control in an organization, which includes the achievement of results and the financial performance associated with achieving these results.
- 2.27 Similar guidance has also been developed and issued by other professional bodies, for example: Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission in the United States; and the Cadbury report, issued in the United Kingdom.
- 2.28 All of these concerns and trends, together with the changing nature of government, indicate a need for a revitalized framework for financial management. The framework being proposed in this study is intended to recognize the role of financial

management within the broader concepts of organizational control.

# Initiatives to Improve Financial Management

- 2.29 The Office of the Auditor General has set, as a long-standing strategic priority, the goals of influencing the quality of financial management and control within the federal government and improving the understanding of the role that financial management can and should play.
- 2.30 As discussed earlier, our concern led us to our decision to work together with the Treasury Board Secretariat to begin the present study. We believe that, as part of moving forward, our Office and the government need baseline information about departments' financial management capability. This study is a first step in getting that information. As the study progresses, and as resources become available, the Treasury Board Secretariat has indicated its desire to be more closely involved in this project. We welcome this co-operation.
- 2.31 The President of the Treasury Board has created an Independent Review Panel on Modernization of Comptrollership. Its task is to review and report on how the comptrollership function should evolve to reflect the changing business and operating needs of the government. The Panel was created because of the profound changes the government is undergoing in how it operates, the resources available to it, and the challenges, risks and opportunities facing it. The Panel's work is considered to be pivotal in helping government deliver on its commitment to provide more effective financial management. The Panel has indicated it will consult broadly on key aspects of comptrollership, including:

- financial management;
- accountability and performance reporting;
  - · audits and reviews; and
- related areas such as financial information and public sector management.
- We have been informed that the 2.32 decision to establish a high-profile Panel like this reflects the seriousness with which Treasury Board Secretariat officials view the concerns that we have raised about financial management. The Office is committed to working with the Independent Panel and the Treasury Board Secretariat in achieving better financial management in the Government of Canada. The Panel's report will be taken into account as this study progresses. We will be interested in seeing the extent to which the Panel addresses the questions raised in paragraph 2.12.

# Developing a Financial Management Model

### **Defining Financial Management**

Experience has shown that financial management is a term that has almost as many meanings as there are people who use it. Indeed, the lack of clarity about what the term encompasses has probably contributed to the difficulties in making progress in the area over the years. Accordingly, we have begun our study by suggesting a definition of financial management in terms of the activities that we believe it includes. In the private sector, financial management is often thought of as including two areas of activity frequently covered by the terms "treasury" and "comptrollership". In government, the activities usually associated with the treasury function, such as cash flow management, debt management, investment and corporate budgeting, are carried out jointly by central agencies - the Department of Finance, Receiver General and the Treasury Board Secretariat. Our current study excludes these activities from its scope. Thus our definition of financial management is intended to refer only to those financial management activities that are carried out in the departments and agencies of the government. We have also excluded, at this time, the issues of financial management in Crown corporations.

- 2.34 Financial management in departments and agencies is an important component of what financial and program managers do in delivering programs within their organizations. Specifically, in carrying out their financial management responsibilities, the managers' role is to:
  - identify and manage financial risks;
- have available, on a timely basis, relevant, accurate and reliable information that allows them to understand the financial implications of decisions before making them;
- report on financial and operational results (see Chapter 3 for a current assessment of the central accounting function); and
- protect against fraud, financial negligence, violation of financial rules or principles, and losses of assets or public money.
- 2.35 Effective financial management is therefore a critical activity that helps an organization assess the cost of achieving its objectives, account for the results of its operations and discharge its accountability obligations.
- **2.36** The essential activities and components of financial management are illustrated in Exhibit 2.1, the Financial

Management Activity Model. While not specifically set out in the Exhibit, the Activity Model also includes the informal controls and practices that are essential components of the overall management framework and hence can have a critical effect on how financial management will function in a particular organization. These components include:

- organizational environment;
- human resources policies and practices; and
- communication practices through which the organization's objectives and purposes are communicated.
- **2.37** There are several key processes that underlie the Financial Management Activity Model. They include:
  - the expenditure and revenue cycles;
  - cost accounting;
  - · payroll and benefits accounting;

- providing support for performance measurement and reporting;
  - financial reporting;
- financial planning and budgeting;
   and
  - · asset and liability management.
- 2.38 The responsibility for these processes and functions is not restricted to departmental financial managers. Some of the responsibility will also extend to departmental operational and program managers, depending on the nature of the department.
- 2.39 Exhibit 2.2 extends the Financial Management Activity Model by illustrating how the activities and components of financial management are related to the specific objectives of financial management, which in turn link to the broader objectives of financial management:
  - managing financial risks;
  - · serving accountability; and
  - supporting operational decisions.

Exhibit 2.1 **Financial Management Activity Model** Financial Management Financial Control Financial Information Financial Analysis Financial Future-Historical Financial Information Oriented Financial System on Financial Advice Information Operations Information Payments Receipts Financial Prospective Control Budgeting Planning Financial 80 Assets Receivables Advice Payables Advice

### Study Approach

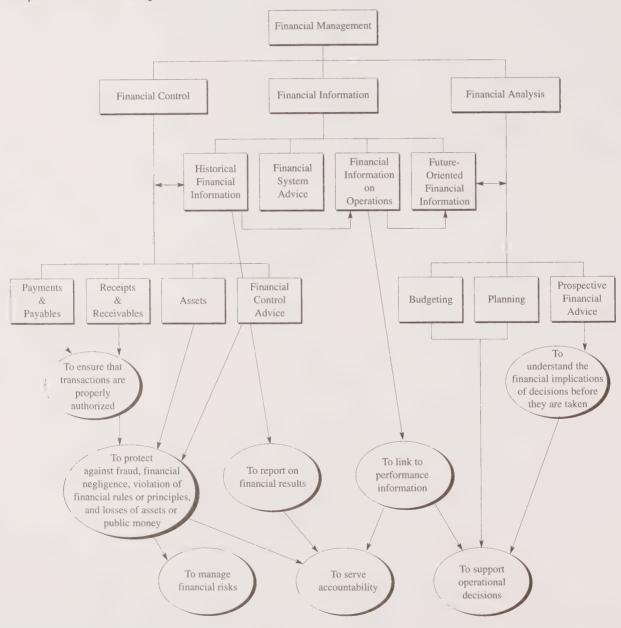
2.40 This study is designed to respond to the need that we and the Treasury Board Secretariat have identified for a methodology that will permit us to

reliably assess the financial management capability of departments and agencies.

**2.41** In developing this financial management framework, we intend to work co-operatively with the Treasury

Exhibit 2.2

Financial Management Activity Model Linked to Objectives of Financial Management



Board Secretariat and the government financial community and to implement a process that incorporates extensive consultation with the management teams within departments and agencies.

2.42 As part of this study, we are developing a Financial Management Capability Model that will describe key elements needed for effective financial management and control. The Model, described in more detail below, is not intended to provide a definitive answer on the expectations for financial management in departments. Nor does it prescribe a complete approach for assessing financial management. Rather, it is intended to provide a basis for beginning discussions and developing consensus on the essential components of effective financial management.

### Principles underlying our work

- **2.43** The main principles underlying this study are the following:
- Financial management, working in concert with other components of an effective management framework, should be used to assist organizations in achieving their objectives and accounting for the cost of the results of their operations.
- Management should be responsible both for determining the appropriate level of financial management capability for its organization and for establishing the necessary processes and practices needed to achieve and maintain this capability.
- Not every organization requires the same level of financial management capability. The appropriate level should be commensurate with the nature and complexity of the organization and the risks to which it may be exposed. We recognize that "no one size fits all".
- Financial management activities must be cost-effective. In other words, the

cost of maintaining control should be commensurate with the risk the controls are intended to address.

# The Financial Management Capability Model

- 2.44 The purpose of the proposed Capability Model is to provide a tool that a government organization can use to:
- determine its financial management requirements based on the nature, complexity and associated risks of its operations:
- assess its financial management capabilities against established requirements; and
- identify any gaps between what the organization requires and what it is capable of, in terms of financial management. Having identified these gaps, an organization can then address any significant imbalance between its requirements and its capabilities and, subsequently, work toward developing the appropriate level of financial management capability.
- 2.45 As the size or complexity of an organization or the risk associated with its activities increases, so does the need for more sophisticated financial management capabilities. The proposed Model will set out an evolutionary path that an organization can follow in developing more sophisticated financial management practices, if necessary. It will also show the steps needed to progress from a level of financial management typical of a start-up organization to strong, effective financial management practices associated with a more mature and complex organization.
- 2.46 An important first step in addressing financial management issues is to treat the entire financial management function as a set of integrated business

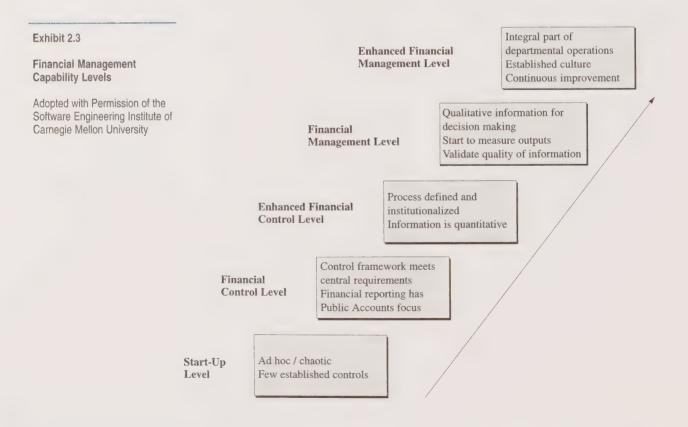
As the size or complexity of an organization or the risk associated with its activities increases, so does the need for more sophisticated financial management capabilities.

processes that support the people working in the organization in the achievement of its objectives. These processes, when properly performed, yield an appropriate degree or level of financial control. Clearly, a fully effective financial management framework must consider the relationships of all the required tasks, the tools and methods used, and the skills, training and motivation of the people involved.

2.47 The Model being developed proposes to establish a framework for strengthening financial management based on many small evolutionary steps. These steps have been organized into five progressive "capability levels". To achieve a level of capability, an organization would be expected to satisfy all the requirements of that level and any

preceding levels. As depicted in Exhibit 2.3, the five levels of capability proposed are:

- start-up;
- financial control;
- enhanced financial control;
- financial management; and
- enhanced financial management.
- **2.48** We have proposed these levels because we believe they:
- represent reasonable steps or building blocks that allow an organization to progress toward its appropriate level of financial management capability;
- suggest interim goals for improving financial management; and
- highlight immediate priorities for correcting any imbalance between an



organization's financial management requirements and its actual capabilities.

# **Characteristics of the Capability Model**

- 2.49 The Capability Model is being designed to be descriptive not prescriptive. When completed, it will not tell an organization how to improve its financial management practices. Rather it will suggest what will be needed to achieve a certain level of capability. The Model is intended to set out a path for making the needed improvements by defining the financial management requirements for each level.
- 2.50 The Model will provide a framework for both determining the financial management requirements of an organization and comparing those requirements with the organization's actual capabilities.
- 2.51 In addition, the Model should reflect specific attributes or financial management capabilities that an organization at a particular level would typically exhibit. An organization could be assessed against these attributes to determine where it is on the financial management continuum according to the Model. While at a lower level on the capability framework, an organization may demonstrate some of the characteristics associated with a higher level of capability.
- 2.52 In summary, the incremental improvements or practices at each level of the Model are seen as the building blocks that allow an organization to establish effective financial management, and provide guidance for continuous improvement.

## The Five Proposed Capability Levels

**2.53** Each level will profile different capabilities in each of the key components or activities of financial management illustrated in the Financial Management Activity Model (Exhibit 2.1).

### Start-up level

The start-up level describes the 2.54 financial management characteristics of a new organization or program that has not yet established its key policies, practices and controls. Accordingly, this level, unlike the others, would not be viewed as a stable environment in which an organization or a program would wish to remain. Any accomplishments in establishing controls to contribute to the achievement of objectives, or the achievement of the objectives themselves. depend on the often isolated efforts of specific individuals, and there is no certainty that those accomplishments would be repeatable. An organization that has experienced dramatic changes in its operations — for example, amalgamation with another department or the relocation of operations — may also be at the start-up level of its financial management capability if it does not effectively manage the increased risks associated with the change.

#### Financial control level

2.55 The requirement for departments and agencies to comply with central agency practices and procedures for producing the Public Accounts of Canada and to meet the requirements of the Central Accounting System should ensure that most departments are able to maintain, on a consistent basis, a financial control framework. This control framework would represent the minimum requirements to satisfy the *Financial* 

Administration Act, Treasury Board policies and Receiver General directives.

2.56 Organizations at this level would be fully capable of processing their accounts payable. They would have begun to establish accounts receivable systems. Planning would largely be geared toward obtaining approval of appropriations and complying with Treasury Board's minimum requirements, that is, the Business Plan and Part III of the Estimates. Financial information would be historically oriented rather than future-oriented. Control efforts would focus on remaining within the vote and not allowing funds to lapse.

**2.57** At this level, organizations' financial management capabilities would primarily be focussed on meeting the requirements of the Central Accounting System in order to have transactions processed.

#### **Enhanced financial control level**

At the enhanced financial control 2.58 level, an organization's control processes would normally have been tailored to suit its needs, as opposed to only satisfying minimum requirements. There would also be an expectation that a risk-based approach to installing controls would be in place, with the focus on making them cost-effective. Accounts payable and receivables, if applicable, would be well managed and there would be control over assets and liabilities. Management would receive historical financial information on a timely basis. Analytical information would be produced as necessary, and not as part of routine financial reporting. Planning and budgeting processes would be working properly, and the organization may occasionally generate future-oriented information for decision making.

**2.59** Since analytical information would not be routinely generated at this level, an organization's ability to make cost-effective decisions may be affected.

## Financial management and enhanced financial management levels

2.60 An organization at one of these levels would be expected to be capable of maintaining effective financial control. It would routinely produce quantitative information for decision making (results would be reported and measured in terms of their effectiveness). At the financial management level, the organization would have started to recognize and implement concepts inherent to effective financial management, such as activity-based costing, benchmarking and performance measurement. However, there would still be room to improve the financial control and financial system advice and integrate or institutionalize financial management throughout the organization. This integration would involve linking finance more closely with program operations.

management level would represent a fully capable organization where financial management and control would be fully integrated with departmental operations. A financial management culture, as well as a process for measuring whether the organization has achieved its objectives and the cost of doing so, would have been firmly established throughout the organization.

**2.62** At these levels there would be a well-established process, such as a strong internal audit function, for providing assurance to management that the organization is operating as it should.

### **Using the Capability Model**

**2.63** In keeping with the principle that managers are responsible for financial

management, we would expect that the use of the proposed Capability Model, once fully developed, would follow the pattern set out in Exhibit 2.4. As a first step, we would expect that the senior management of an organization would systematically analyze the cost and effectiveness of each key activity. The purpose of this analysis would be for management to determine three things:

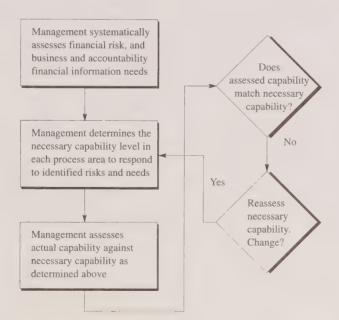
- what financial risks it faces and which ones must be controlled;
- what financial information the organization needs to meet both internal and external accountability requirements; and
- what financial information it needs to support its operational and policy responsibilities.
- 2.64 The second step would be for management to determine, based on the results of its assessment, the level of financial management capability it needs to meet its responsibilities. This step would establish the required level of financial management capability for the organization in light of its responsibilities.

That level would be expected to vary substantially among departments and agencies. For some (mainly small agencies whose major financial activities focus on payroll), the basic financial control level of capability might be sufficient. However, organizations with operations involving largely expenditures and policy formation might well find that they require an enhanced financial control capability. The largest and most complex organizations may determine that they need to attain the financial management or enhanced financial management levels.

- 2.65 As shown in Exhibit 2.4, the third step would be for management to assess the organization's capability in each process area. This assessment would likely involve a combination of traditional internal audit and review procedures and self-assessment of controls.
- 2.66 If the assessment process reveals a discrepancy between the necessary level of capability and the actual level, management would be expected to review its earlier analysis to determine whether the discrepancy is the result of either a deficiency needing to be remedied or an

Exhibit 2.4

Expected Roles and Responsibilities in the Financial Management Capability Process



overstatement of the required capability. In either instance, the discrepancy would need to be resolved.

2.67 Auditors can also use the Capability Model and the process to assess an organization's level of financial management capability relative to its requirements. As development of the Model proceeds, assessment tools and guidelines will be developed to support an assessment process.

### **A Process of Consultation**

- 2.68 In developing the Financial Management Capability Model, we recognize that *how* we will achieve our objectives is as important as achieving the objectives themselves. To this end, a critical component of our work will be extensive consultation with central agencies and financial and operational managers.
- 2.69 All these efforts are intended to provide input to the proposed Model, to assist in developing a consensus on the framework and, ultimately, to contribute to the achievement of effective financial management within the federal government.
- 2.70 We intend to carry out this study in several stages. The first stage, represented by this chapter, was to develop the basic elements of a model at a fairly high level of abstraction, and to put that work out for discussion with public servants, parliamentarians, and other interested parties. The second stage will be to elaborate the basic model by setting out for each of the process areas in the

Activity Model the capabilities expected at each level of the Capability Model. Again, the results of this work will be the basis of consultations. The third stage will be to develop detailed assessment criteria and to validate them in selected departments. Finally, in conjunction with the Treasury Board Secretariat and departments, we can begin to apply the Model to do capability assessments and to continually refine the Model to improve the effectiveness of financial management in the federal government.

2.71 Our ultimate objective is to be able to assess financial management capability, both to identify areas where improvement will be needed and to be able to place in their proper context the failures in financial management that our Office observes from time to time. We believe that doing this will enable us to meet our objective of encouraging better financial management and to serve both Parliament and the public service better.

Treasury Board Secretariat's comments: The government notes the progress being made in developing a model to determine requirements and assess capabilities in financial management in departments. However, as explained in the chapter, in view of the profound changes the government is undergoing in how it operates, the resources available to it, and the challenges, risks and opportunities it faces, an Independent Review Panel on Comptrollership has recently been established that will review and make recommendations on the comptrollership function within the government. The government will wish to consider the recommendations from the Independent Review Panel before committing to implementation of such a model.



## **About the Study**

### **Objectives**

The focus of this study is the financial management and control activities of departments and agencies.

In carrying out this study, our Office, in conjunction with departments and central agencies, wants to develop:

- a common understanding of what is meant by financial management in government organizations (to date, any consensus has been only at a very high level);
- a basis for creating and institutionalizing an effective financial management model, with input and feedback from financial and operational managers; and
- a new, systematic method that could be used to assess the general state of financial management in government and to provide organizations with guidance for improvement.

### **Study Team**

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For information, please contact Hugh McRoberts, the responsible auditor.



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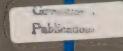
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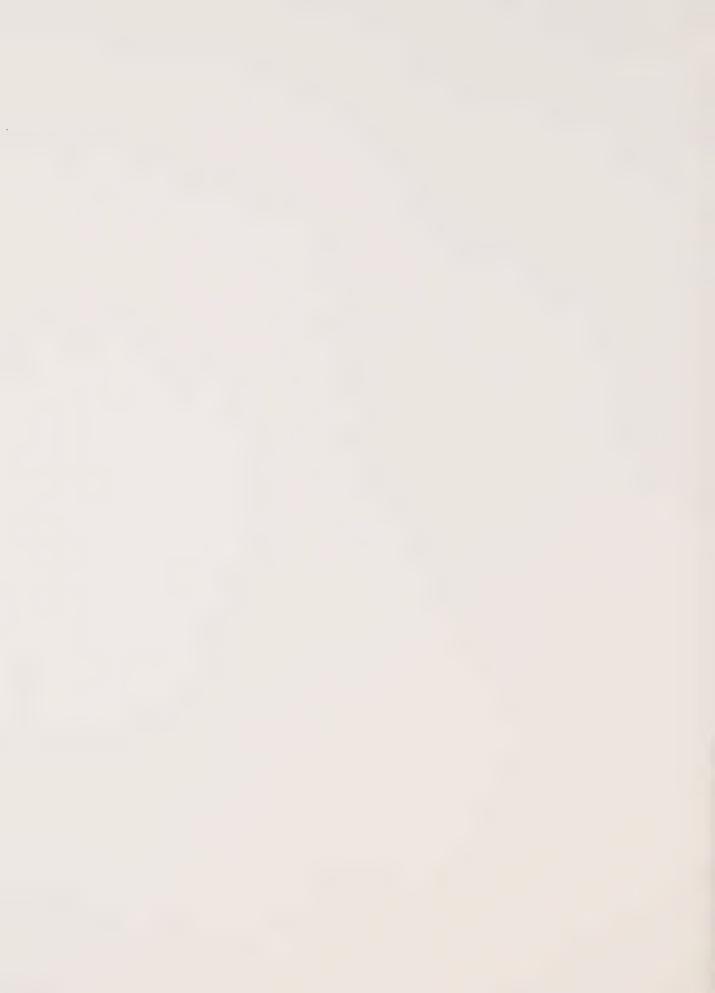


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## Report of the Auditor General of Canada to the House of Commons

Chapter 3
Management of the Government's Accounting
Function: A Central Agency Perspective



Report of the Auditor General of Canada to the House of Commons

Chapter 3
Management of the Government's Accounting
Function: A Central Agency Perspective

This April 1997 Report comprises 10 chapters and a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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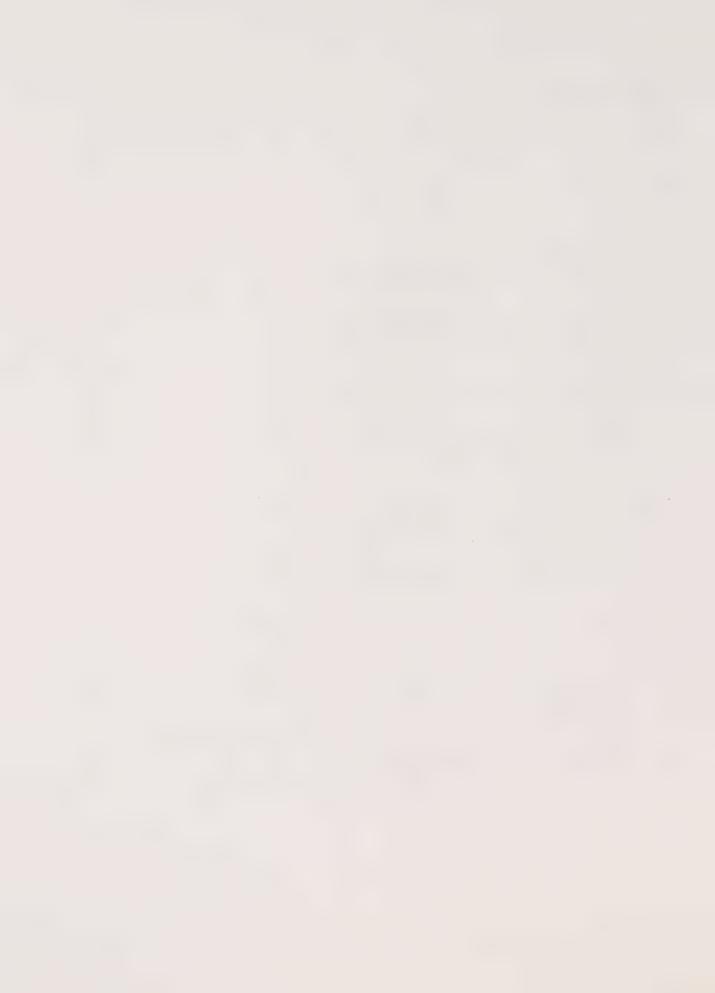
## **Chapter 3**

Management of the Government's Accounting Function: A Central Agency Perspective



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Assistant Auditor General: Ron Thompson Responsible Auditor: John Hodgins

# Management of the Government's Accounting Function: A Central Agency Perspective

### **Main Points**

- 3.1 The accounting function provides essential information for managing the government and for reporting financial results to Parliament, Canadians and other interested parties.
- 3.2 Although the accounting systems are out-of-date technically, they continue to produce annual financial statements for the government that are credible, understandable and useful. In fact, in the past decade the function has undergone significant improvements and efficiencies that have, among other things, placed Canada at the forefront internationally in this type of reporting.
- **3.3** However, the ability of the accounting function to analyze and interpret financial information throughout the year needs to be strengthened in order to forecast financial results of that year and budget figures for the following year.
- 3.4 In response to these needs, the government is making extensive changes to its accounting function by implementing a Financial Information Strategy. The Strategy should help modernize and strengthen the accounting function. While we agree with the changes being undertaken through the Strategy, we believe that more is needed.
- **3.5** Specifically, we believe that the government should prepare and publish its financial reports in a more timely fashion, and consider other strategies to enhance the usefulness and credibility of its monthly or quarterly reports.
- 3.6 In view of the significant changes under way and planned, we continue to believe that the government should amalgamate its central accounting function and take immediate steps to assess the capability of accounting groups within departments and agencies to implement new systems and accrual accounting.
- 3.7 The government has established an Independent Panel on Modernizing Comptrollership in the Government of Canada. The Panel may wish to consider our findings and recommendations as part of its work.



### Introduction

#### Why is accounting important?

- 3.8 Most organizations account for their activities and financial transactions in one way or another. For individuals, accounting data can also be extremely important. Whether purchasing a home and taking out a mortgage, or budgeting for groceries, we need to know our current income and past spending patterns in order to carry out sound financial planning. The more complete and consistent our personal accounting information, the more informed our financial decisions will be, and the more reliable our financial forecasts.
- 3.9 In the business world, an annual report and financial statements provide a concise overview of a company's activities and financial performance. This information is extremely important to current and potential shareholders in deciding whether to buy or sell the company's stock. For management, accounting information helps in assessing which business lines should be promoted or cut back and what other actions are needed to increase overall corporate net worth.
- 3.10 Similarly, in the public sector, annual reports and summary financial statements help users understand the overall size of governments; the nature, scope, financing, costs and impacts of their activities; and the extent to which targets for overall revenues, spending and borrowing have been met.
- 3.11 In government, accounting information enables legislators to hold governments accountable for their actions, both at the program level and in the aggregate. Chapter 5, "Reporting Performance in the Expenditure Management System", deals with

reporting on what programs are achieving. But it is not enough to know what each program of government is achieving, without knowing whether the aggregate of all programs is financially sustainable.

- 3.12 Accounting information provides both an historical overview of where a government stands financially at a point in time and a tool for predicting the future. In this respect, users need to have confidence in their government's accounting information. Lack of confidence, for whatever reason, could cause economic malaise, such as disproportionate fluctuations in the value of a nation's currency or in interest rates.
- 3.13 In summary, accounting information is an important part of the accountability and communication process for both individuals and organizations, including government, in determining and evaluating financial health.

#### The purpose of this study

- 3.14 The purpose of this study was to inform members of Parliament about the importance and quality of the government's accounting function and the significant challenges it faces, and to identify concerns and make recommendations to improve the function.
- 3.15 When considering the government's accounting function, one can look at information at two levels for the government overall and for each of its departments, agencies and Crown corporations. Both levels of information are important. However, this chapter addresses information only at the overall government level, that is, from a central agency perspective.
- 3.16 At the departmental level, the Office of the Auditor General, in conjunction with the Treasury Board Secretariat, is developing a Financial

Accounting and financial statements help Canadians and legislators hold governments accountable and evaluate their financial health.

Good accounting functions efficiently produce credible, understandable, useful and timely information that is subject to analysis.

Management Capability Model. The Model should permit an organization to compare its financial management requirements with its capabilities. The process for developing and using departmental and agency accounting information is part of the Model. An overview is included in Chapter 2, "Financial Management: Developing A Capability Model".

3.17 The findings and conclusion presented in this chapter are based on a review of the central agencies' roles and responsibilities, interviews with government officials responsible for the central accounting function, and interviews with officials in private sector companies, provincial governments and other national governments. We also researched existing literature on the subject. Further details on the study are presented at the end of the chapter in About the Study.

## What are the characteristics of a good accounting function?

An accounting function 3.18 comprises many things. It includes the organization's accounting rules, normally referred to as generally accepted accounting principles. In the private sector, those principles are established by the Accounting Standards Board of the Canadian Institute of Chartered Accountants, while for governments in Canada they are being developed by that Institute's Public Sector Accounting and Auditing Board. The accounting function also includes accounting procedures or methods of applying those principles, the actual accounting records and the accounting system that produces those records, and the reports, such as financial statements, generated from the accounting records.

- 3.19 Above all else, the accounting function includes people, who make all of this happen and who explain the numbers and use them to support decisions with financial analysis, anticipate problems and recommend corrective action.
- **3.20** A good accounting function normally has the following interconnected characteristics:
- It produces **credible** financial information that is **understandable**, **useful**, and available on a **timely** basis.
- The financial information is subjected to **analysis** by the people in the accounting function, with resultant advice integrated into the decision-making process.
- The financial information is assembled with **efficiency**, using technology to the greatest extent possible.
- 3.21 We have ascertained these characteristics from the Canadian Institute of Chartered Accountants' Handbook and guidance by similar professional organizations worldwide, from accounting literature, and from discussions with accounting and auditing professionals both within Canada and abroad. Each of these characteristics is explained in the following paragraphs.
- 3.22 Credible. Financial information produced by the accounting function, both for internal use and for publication externally, should reflect financial reality. Put simply, users must be able to believe it. Credible financial information is achieved through the consistent application of generally accepted accounting principles. Credibility is also evidenced through an opinion, without qualification or reservation, from an independent auditor. Generally accepted accounting principles provide objective standards of good accounting and reporting practice that organizations can

use to prepare their financial statements and that auditors can use to assess them.

- 3.23 Understandable. The financial information produced by the accounting function should be concise, succinct and crafted in a way that users with a reasonable knowledge of the organization can understand. It should contain enough information for analysis, but not too much detail. In other words, users should not be intimidated by massive amounts of detail when they simply need a financial overview. However, because more detailed information is often required, the accounting function should provide a trail to the source of that information.
- 3.24 Useful. User-friendly indicators of financial health can help readers of government financial statements recognize the significance of the very large numbers shown. In the private sector, "earnings per share" and "debt-to-equity" ratios have evolved over time to make summary financial information useful. In government, the Canadian Institute of Chartered Accountants is researching indicators for this purpose; results of this research are expected soon.
- 3.25 Timely. To have a chance of making a difference or influencing events, sound financial decisions must be made as soon as possible after problems are identified. The financial information produced by the accounting function should therefore be made available, in final form, as soon as possible after the reporting period ends, taking into account the costs of doing so.
- **3.26** Analysis. Good accounting functions should be integrated into management decision making. With the advances in technology, transaction processing requires less manual intervention, thereby freeing up

accounting resources to analyze and interpret financial information and to make recommendations to management. Increasingly, accounting functions are more focussed on the future than on the past.

- 3.27 Efficiency. Financial information should be accumulated and reported as quickly and economically as possible, and should be capable of timely use for analytical purposes. Little time should be required to process period-end adjustments. Resources in the accounting function can thus devote more time to analysis and advice.
- 3.28 In this chapter, we assess the government's present accounting function against these characteristics. As noted, the government does well in certain areas and not so well in others; however, actions are under way to strengthen areas where improvement is required.

## **Study Findings**

## How Does the Government of Canada Do Its Accounting?

#### **Accounting function framework**

- 3.29 The Government of Canada's central accounting function is shared by three entities: the Receiver General function in Public Works and Government Services Canada, the Treasury Board Secretariat and the Department of Finance. Exhibit 3.1 summarizes the overall framework for the accounting function in the Government of Canada.
- 3.30 The Receiver General is also the Minister of Public Works and Government Services Canada. The bulk of the activities in the central accounting function are carried out by the Receiver General function within that department. It maintains and operates the

The Receiver General function, the Treasury Board Secretariat, and Finance are jointly responsible for the government's accounting function.

government-wide Central Accounting System. It establishes and communicates accounting procedures to departments, agencies and Crown corporations and provides guidance on their application. It also produces interim financial reports and the *Public Accounts of Canada*. The Central Accounting and Reporting Sector of the Receiver General function employs 82 accountants, systems specialists and operational managers.

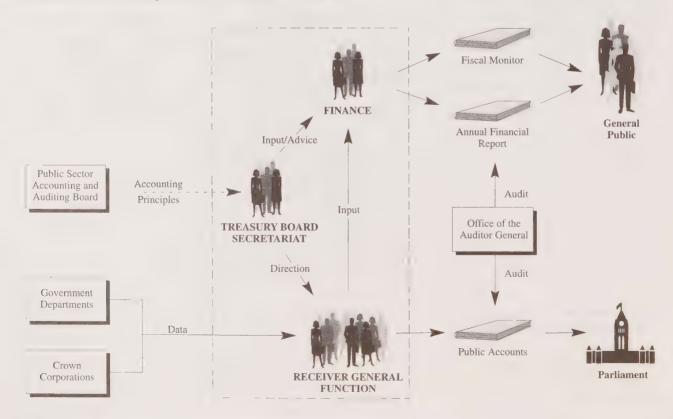
3.31 The Treasury Board Secretariat establishes and communicates accounting policies to departments and agencies and provides guidance on their application. It provides direction to the Receiver General function on the form and content of the Public Accounts, establishes various accounting estimates, establishes the form and content of the government's financial

statements and maintains liaison with the Office of the Auditor General. The Government Accounting Policy Division of the Treasury Board Secretariat carries out these responsibilities and employs six accountants.

3.32 The Department of Finance has broad responsibility for matters relating to the financial affairs of Canada. Along with several other responsibilities, the Fiscal Policy Division of the Department has the primary responsibility for analyzing and assessing the financial position of the government on an ongoing basis. Based on a summary of the cash transactions of the government produced by the Receiver General function, it prepares and publishes *The Fiscal Monitor* monthly. At year end, the Division produces the *Annual Financial Report of the* 

Exhibit 3.1

Framework of the Accounting Function of the Government of Canada



Government of Canada. In addition, it has joint responsibility with the Treasury Board Secretariat for the form and content of the Public Accounts. The Division employs 10 economists to fulfill these responsibilities.

3.33 Departments, agencies and Crown corporations are also key elements of the overall framework of the accounting function. Regularly, departments verify the completeness of the information contained in the Central Accounting System, Annually, they provide other accounting information to the Receiver General function for the preparation of the Public Accounts. Quarterly and annually, Crown corporations provide aggregate accounting information to the Receiver General function for reporting in the government's financial statements.

#### **Basis of accounting**

**3.34** The government prepares its monthly financial statements primarily on a "cash basis" and its annual financial statements on a "modified accrual" basis. Exhibit 3.2 provides a simple explanation of the difference between these two bases

of accounting and how the government proposes to prepare financial statements in the future.

#### **Accounting process**

- **3.35** At a very simplified level, the accounting process of the government is depicted in Exhibit 3.3.
- 3.36 Departments submit accounting transactions on a cash basis of accounting to the Central Accounting System, which is a 30-year-old aggregate of computer applications that are maintained and operated by the Receiver General function. The input to the System is done using a variety of media ranging from paper batches to more modern means, such as on-line transmissions.
- 3.37 The Receiver General function prepares a set of monthly financial statements primarily on a cash basis of accounting approximately five weeks after month end. To accomplish this, staff process an average of 100 manual journal entries each month after investigating, among other issues, transaction coding errors made by departments and agencies. The Department of Finance analyzes those financial statements and publishes them in

The government produces monthly financial statements on a cash basis of accounting, and annual financial statements on a modified accrual basis of accounting.

Exhibit 3.2

**Basis of Accounting** 

CURRENT PRACTICE		PROPOSED PRACTICE	
Monthly	Annually	Monthly and Annually	
Cash receipts	Cash receipts and non-tax accounts receivable for amounts owing to the government	Cash receipts and both tax and non-tax accounts receivable for amounts owing to the government	
<u>less</u>	less	<u>less</u>	
payments and adjustments to accounting estimates	payments and accounts payable for amounts owing by the government	payments and accounts payable for amounts owing by the government	
= cash basis of accounting	= modified accrual basis of accounting	= accrual basis of accounting*	

<sup>\*</sup> As described later in this chapter, the government is also proposing to implement full accrual accounting for capital assets.

The government's accounting process is centralized, with departments submitting cash transactions but doing little else in the way of overall government accounting.

The Fiscal Monitor. This publication explains the government's performance compared with the previous year's results for the same period.

For year-end reporting, the 3.38 Receiver General function accumulates information on liabilities, values of assets and accounts receivable in addition to the cash data produced in the monthly process. This takes six to seven months to complete. To produce the financial statements and accompanying notes, detailed information must be obtained from departments, agencies and Crown corporations. As a result, more manual journal entries than at month end are required to produce the government's financial statements on a modified accrual basis.

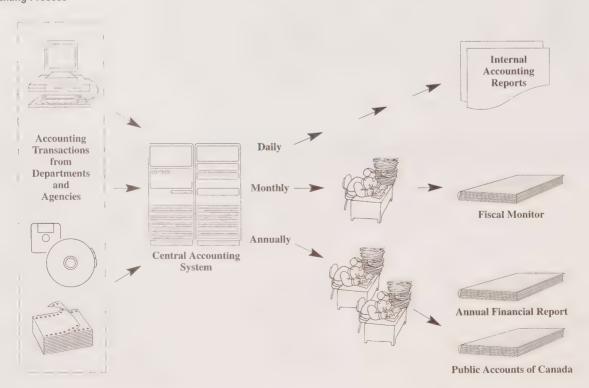
3.39 The financial statements are included in Volume I, Section 1 of the

Public Accounts of Canada. A condensed version of the government's financial statements is also published in the Annual Financial Report of the Government of Canada.

framework for the accounting function of the Government of Canada requires a central set of detailed accounting records, fed by transactions submitted by individual departments, agencies and Crown corporations that do little else in the way of overall government accounting. As explained in more detail later in the chapter, this framework is undergoing a fundamental change.

3.41 Our observations. The overall framework, basis of accounting and accounting process shown in Exhibits 3.1, 3.2 and 3.3 have significantly improved in the past decade. In particular, credibility

Exhibit 3.3
Accounting Process



has improved as the government has adopted more generally accepted accounting principles, and the Auditor General has given a clean opinion on its annual financial statements for six of the past seven years. The government's financial statements are now much more understandable, useful and timely. Improved procedures have been implemented to better analyze why the numbers are what they are. And, particularly in the Receiver General function, overall improvements in efficiency have resulted in significant cost savings to the government. Nonetheless, in our view, improvements can still be made.

- 3.42 Exhibit 3.4 compares the government's present central accounting function with the characteristics of a well-performing function described earlier. The comparison is shown in two parts, broadly based on the three key outputs of the accounting function:
- The Public Accounts of Canada and the Annual Financial Report. These annual reports are of use primarily from a historical perspective. They report the government's financial position at the end of the year and why it improved or deteriorated over the year.
- The Fiscal Monitor. This monthly report, while of interest from an historical perspective, should be of more use for predicting the final results for the year and in establishing targets for the next year.
- **3.43** In summary, the government's accounting function does a relatively good job presenting historical information. However, in our view, improvements can be made in presenting information for predictive purposes.
- 3.44 Credible and useful. The Annual Financial Report of the Government of Canada and Public Accounts of Canada

include audited financial statements that are prepared for the most part in accordance with accounting principles recommended by the Public Sector Accounting and Auditing Board (modified accrual basis). The monthly issue of The Fiscal Monitor, however, is not prepared in accordance with those principles; it is prepared primarily on a cash basis. Therefore, as a predictive tool, we believe that the monthly financial reports are not particularly helpful. It is difficult to predict what the financial results of a particular year will be, or to prepare a budget for the subsequent year, when the most current financial information available has been prepared on a different basis of accounting.

- 3.45 To illustrate, Exhibit 3.5 compares the 1995–96 deficit announced in the 1995 Budget with the updated figures presented in the 1996 Budget, and with the preliminary figures as published in *The Fiscal Monitor* of March 1996 and finally published in the 1996 *Annual Financial Report of the Government of Canada* and *Public Accounts of Canada*.
- **3.46** Significant variations exist in these amounts. Although it is reasonable to expect variations between amounts forecast in the 1995 Budget and actual

The government does a good job presenting historical financial information, but could improve financial information needed by officials who make key decisions and prepare budgets.

Exhibit 3.4

Comparison of the Government's Performance with the Characteristics of a Well-Performing Accounting Function

Characteristic	Historical	Predictive
Credible	√	
Understandable	$\sqrt{}$	1
Useful	$\checkmark$	
Гimely		V
analysis	$\sqrt{}$	1
Efficiency		

outcomes, one would expect forecast figures published just before the fiscal year end (in the 1996 Budget) and the actual figures published in the March 1996 issue of *The Fiscal Monitor* to be closer to the final outcomes. That issue of *The Fiscal Monitor* did note, however, that it did not present final results for 1995–96 and that the final deficit outcome would be affected by "end-of-year accounting adjustments," which had ranged from \$3 billion to \$6.4 billion in recent years.

**3.47** Another example demonstrates the problems associated with presenting financial information using the cash basis of accounting. The May 1995 issue of *The Fiscal Monitor* provided the following explanation for an increase in expenditures:

All of the increase in program spending was attributable to the timing of federal government employees' pay periods. For the majority of federal government employees, pay periods are once every two weeks. As a result, there are three pay periods within one

month twice during the course of the year. In 1995–96, the first three-pay period occurred in May 1995, whereas in 1994–95, it occurred in June 1994. This raised program spending by about \$.4 billion in May 1995.

3.48 Clearly, salary levels (and payroll costs) were unaffected by having three pay periods fall in one month, although the increase in reported expenditures for that month might indicate otherwise.

Explanations such as this would be unnecessary under an accrual accounting regime as fluctuations of this nature would not occur.

3.49 Timely and useful. Annual financial information is available six to seven months after the fiscal year end. In our global economy, much can happen in a few months that can worsen a deteriorating financial position. In our view, earlier release of financial results could hasten the public discussion of ways to improve that position, particularly in this era of massive deficits and debt.

**3.50 Analysis and efficiency.** Although analysis of the monthly financial

Exhibit 3.5

Comparison of the Budget with Actual Figures for 1995–96
(\$ Billions)

	Original Budget	Updated Budget	March Fiscal Monitor	Annual Financial Report and Public Accounts
Revenues	133.2	130.6	128.5	130.3
Program spending	<u>-114.0</u>	<u>-113.8</u>	<u>-106.2</u>	<u>-112.0</u>
Operating balances	19.2	16.8	22.3	18.3
Public debt charges	<u>-49.5</u>	<u>-47.0</u>	<u>-46.6</u>	<u>-46.9</u>
Deficit	<u>-30.3*</u>	<u>-30.2*</u>	-24.3	<u>-28.6</u>
Published in	February 1995	March 1996	May 1996	October 1996

<sup>\*</sup> The figure is presented without the \$2.5 billion contingency reserve.

information is performed to find out why the numbers are what they are, less work is done to forecast what the financial results for the year will be and what corrections could be made. When most staff in the accounting function spend their time processing accounting transactions and writing journal entries, it is little wonder that more structured and forward-looking analysis is not being done. Such analysis is essential for anticipating problems and taking corrective action during the year, and for preparing realistic budget forecasts for the subsequent year.

3.51 Given the results of our comparison of the government's accounting function with a well-performing accounting function, as summarized in Exhibit 3.4, one is likely to ask whether the government is taking action to overcome the deficiencies noted. Happily, the government intends to do so; however, as described in the next section, this will be a significant challenge.

## Is the Government Changing How It Does Its Accounting?

- 3.52 The government has announced plans to implement four significant changes in its accounting systems and rules over the next five years. These changes, known as the Financial Information Strategy, should help modernize and strengthen the accounting function. They do, however, pose significant challenges for the government.
- 3.53 In addition, in November 1996, the Treasury Board President announced the creation of an Independent Panel on Modernizing Comptrollership in the Government of Canada, and the appointment of a Deputy Comptroller General. The Panel comprises public and private sector experts and its work will

take into account comptrollership (including the accounting function) in both central agencies and operating departments of the government. Among other things, the Panel will consider the changes to comptrollership that will ensure that it provides value and support to management and Parliament and meets the needs of both.

#### Systems renewal

- 3.54 As noted previously, the government's Central Accounting System has been in place for over 30 years and is in need of modernization. The government plans to replace the Central Accounting System with a summary ledger, and separate accounting systems and detailed ledgers for each of its approximately 100 departments and agencies. Crown corporations, which are also included in the summary financial statements, already have these systems in place.
- 3.55 The government claims that this change in systems architecture, when fully implemented, will make individual departments and agencies more responsible for, and thus strengthen, their own accounting functions. From a central agency perspective, full implementation of new systems should improve the timeliness and efficient production of accounting information. This will result from much less manual intervention at the centre to produce consolidated information. In addition, detailed information will be handled by departments and agencies, and not by central agencies. As a result, the accounting function at the centre should have more time to devote to forward-looking analysis and interpretation.

#### Accrual accounting throughout the year

**3.56** Maintaining accounts primarily on a cash basis of accounting throughout

Most accounting staff in the central agencies spend their time processing transactions and not enough time analyzing the information produced.

The government is taking action to strengthen its accounting function through two initiatives: the Financial Information Strategy and an independent panel on modernizing comptrollership.

the year and adjusting them to modified accrual only at the end of the year has created significant problems. As stated previously, it is difficult to predict the actual financial results of a particular year, or to prepare a budget for a subsequent fiscal year, when the most current financial information has been prepared using a different basis of accounting.

3.57 The challenge for the government is to put in place a process that permits credible and therefore more useful reporting of financial results throughout the year, thereby facilitating timely preparation of financial statements during the year and at year end. Accordingly, the modernization of accounting systems includes provision for moving to accrual accounting throughout the year.

## **Strengthening accounting for tax** revenues

The 1994 report Review of the 3.58 Forecasting Accuracy and Methods of the Department of Finance recommended: "The federal government should make changes to the accounting for the tax revenues to mitigate year end adjustment issues." It goes on to state, "The accounting method used by the government for tax revenues introduces some unhelpful volatility, when viewed from the perspective of the fiscal forecasters." The Minister of Finance therefore announced in the 1995 and 1996 Budgets the government's intention to strengthen the accounting for and reporting of income tax revenues by moving to some form of accrual accounting.

3.59 Currently, income tax revenues and the deficit or surplus for a reporting period can easily be affected significantly by incidental factors such as computer malfunctions, work slowdowns or strikes just prior to the end of that period. For

example, the Department of Finance provided the following explanation in the August 1996 issue of *The Fiscal Monitor* for a reduction in Goods and Services Tax (GST) revenues:

The year-over-year decline in GST collections was due to the timing of receipts, as certain collections due at month end were remitted in early September. Under GST legislation, some monthly remittances are due on the last day of the month. If that day falls on a weekend or holiday, the remittances are not due until the first business day of the next month. These remittance procedures should have no impact on the collections results for the year as a whole, as adjustments are made at year end to correct for timing differences.

- 3.60 This explanation would not have been necessary with some form of accrual of tax revenues, because the August GST remittances "due" to be paid in September would have been "accrued" and shown in August where they belong.
- 3.61 Strengthened accounting for tax revenues should therefore result in more credible financial information because reported tax revenue will not be affected by factors such as technology or labour problems. It should also result in more useful financial information on the basis of which the Minister of Finance can forecast fiscal results for the year.

## Full accrual accounting for capital assets

3.62 In his 1995 and 1996 Budgets, the Minister of Finance announced the government's intention to implement full accrual accounting for capital assets. With this change in accounting practice, the costs of acquiring capital property will be recorded as assets, and will be charged to expenditures in any one year only to the extent that the assets were used in that

The accounting changes pose significant challenges and risks.

year. To illustrate, a \$100 million capital asset with a useful life of 10 years would be charged to operations at the rate of \$10 million per year over the next decade; under the government's present accounting rules, the full \$100 million cost of the asset is included in expenditures of the year in which it is acquired.

- 3.63 In a proposed policy, the Treasury Board Secretariat has described the benefits of the initiative as being:
- better accounting for the "cost" of government. Charging the full cost of an asset in one year and nothing later in its useful life does not accurately reflect the real annual cost of operating government programs;
- better decision making. Due to the use of the deficit as the principal tool for fiscal management, approval of large capital projects may be influenced by their adverse effect on the current-year deficit, despite being cost-effective on a multi-year basis. For the same reason, departments consider capital leases as a method of acquiring assets, despite the higher overall costs of this approach; and
- better accountability for capital assets. When a capital asset is expensed (or written off) on acquisition, in future years it becomes a "free good", and therefore future-year costs of using capital assets (amortization) tend to be of less consequence or concern.
- 3.64 The government faces an enormous challenge in implementing full accrual accounting for capital assets. In the Auditor General's Observations on the Financial Statements of the Government of Canada for the years ending 31 March 1995 and 1996, five cautions were outlined for the government to consider:
- Full accrual accounting for capital assets should be implemented at the

departmental level, not just at the summary level.

- The government's appropriation process should be harmonized with full accrual accounting for capital assets.
- Stringent rules for depreciating and valuing capital assets should be developed and implemented to avoid manipulation of reported results.
- The potential adverse behavioural aspects of accrual accounting for capital assets (weakened resolve for fiscal restraint) should be considered carefully and avoided.
- Certain of the government's capital assets (infrastructure, heritage and works of art) may require special consideration.
- 3.65 The government has started to take appropriate action on four of the five cautions. With respect to the issue of harmonizing the government's appropriation process with full accrual accounting for capital assets, much work still needs to be done. Without first determining how the appropriation process will harmonize with, and thereby facilitate, this change in accounting, the government could jeopardize its ability to manage and control these expenditures and report on their costs. More simply put, it makes little sense to seek legislative authority on one basis and to manage on another basis.

#### A related challenge — the year 2000

3.66 With the year 2000 approaching, the government is facing yet another significant challenge and risk. Most computer systems and applications have limitations that can prevent them from functioning as intended beyond the year 1999. This risk exists not only for accounting systems but for all other applications in governments and, indeed, in organizations throughout the world. We have been informed that the Treasury

Full accrual
accounting for capital
assets is an enormous
challenge for the
government, but there
are many benefits to
be gained from
implementing the
change.

If Parliament continues to grant appropriation authority on a cash basis, the benefits of capital asset accounting may not be realized.

Other organizations have learned valuable lessons in facing similar challenges.

More meaningful analysis of the information contained in the government's financial statements is needed.

Board Secretariat has projects under way to address this issue in departments and agencies. The Office of the Auditor General is also currently addressing this issue and will report on it later this year. At this time, it is sufficient to say that this systems challenge makes addressing the four challenges noted above more daunting.

## What Lessons Did We Learn from Others?

- 3.67 Throughout the world, organizations are facing some, if not all, of the challenges that we have described above for the Government of Canada. Many organizations have implemented changes in their accounting functions to address those challenges.
- 3.68 As part of this study, we carried out interviews with private sector organizations, several provincial governments and certain national governments. While none of the organizations we studied are strictly comparable, either in size or complexity, with the Government of Canada, their collective experience is nevertheless worth considering.
- 3.69 Exhibit 3.6 reflects a broad synthesis of our interviews. In many cases, interviewees discussed successful accounting functions in terms of overall authority, tools and people. In other words, the chances of success were enhanced when someone with overall authority was in charge, with the appropriate technological tools and with well-trained professional people at his/her disposal.

## **Enhancing the Government's Chances of Success**

**3.70** We believe that implementation of the significant changes in accounting

systems and accounting rules discussed in this chapter should do much to modernize and strengthen the government's central accounting function. In making these changes, we would encourage the government to consider our observations and recommendations, which we believe should enhance the chances of success in this most important and far-reaching government initiative.

## Analysis of government-wide financial information

- 3.71 As described earlier, the government needs timely and meaningful analysis and sound advice from the accounting function. A good accounting function can often highlight problems throughout the year that need to be corrected before they become critical. In addition, it can provide invaluable support in preparing the Budget for the next fiscal year and in updating the forecast of financial results for the current fiscal year. This exercise, normally carried out in the late fall and early winter, is without doubt one of the most important events in the government's calendar. In our view, budget forecasts of deficits and debt should be based on credible information and analysis from the accounting function.
- 3.72 The government should strengthen its capability to analyze and interpret government-wide financial information on an ongoing basis throughout the year.

#### Strategy for published financial reports

3.73 The government meets various legislative and international requirements by publishing its three main financial reports: the annual *Public Accounts of Canada*, the *Annual Financial Report of the Government of Canada* and *The Fiscal Monitor*. Including the opinion of the Auditor General on the summary financial statements in the annual reports enhances

the reports' credibility. Most national governments do not publish overall financial statements together with an independent opinion from their auditors. Clearly, we believe that Canada is at the forefront internationally in this type of reporting; however, improvements can still be made.

3.74 For example, many of the organizations included in our study do not publish monthly financial statements. The norm is to publish quarterly financial statements within either a mandated time frame or within a time frame expected by

users of the financial statements. Those statements are prepared in accordance with generally accepted accounting principles, include information on assets and liabilities, revenues and expenses and cash flows, and are often available within a few weeks of the quarter end. In addition, the quarterly financial statements are sometimes subject to some limited review by the organizations' independent auditors.

**3.75** The Fiscal Monitor includes information only on revenues and expenditures and on cash and debt

#### **OVERALL AUTHORITY**

In the private sector, there is a strong central accounting function residing in one place with one senior official in charge. Boards of directors, chief executives and management committees rely on this official to inform and advise them objectively on the financial consequences of the policies and programs advocated by those with operational responsibilities. In the public sector, one senior official is also clearly responsible for the accounting function, although responsibility for preparing the budget normally resides with another senior official.

#### **TOOLS**

Consolidation tools are used with little manual intervention, allowing audited annual financial information to be released less than three months after year end. These consolidation tools are also used for quarterly and monthly financial information using the same basis of accounting. The quarterly financial statements may be subject to some limited "review" by independent auditors and are released within one month of the quarter end. (A review differs from an "audit" in that its scope is narrower and the assurance provided is lower — the auditor simply tries to assess whether the information is "plausible", or worthy of belief.) Monthly financial information is generated only for management review, not normally for public release.

#### PEOPLE

People throughout the organization recognize the value of the accounting function and the benefits of accrual accounting.

Professionally qualified accountants are employed at the centre and their primary role is to perform analysis and interpretation of accounting information. Significant training is given to enable them to use accounting information in this way and to offer sound advice for decision making. Other users of accounting information also obtain guidance in order to understand and use the information wisely.

Professionally qualified accountants carry out the accounting functions in the organizational units (subsidiaries or departments). The senior official in charge of accounting provides strong functional leadership to these units even though they may report directly to their organizational heads.

Significant training is required of the accounting staff in organizational units, particularly when a major shift in accounting policies (such as accrual accounting) is implemented. The training is normally led by the central accounting function.

Exhibit 3.6

Overall Authority, Tools and People: Factors in Successful Accounting Functions

The government's reporting strategy for its interim and annual financial statements should be reviewed.

balances, not on all assets and liabilities. This monthly information is often difficult to interpret, because revenues and expenditures are not evenly distributed throughout the fiscal year. Resultant monthly deficits and surpluses, particularly in the first several months of the fiscal year, are therefore not indicative of the eventual results for the year. Further, there is currently no means to compare interim financial results with the Budget, as it is not broken down into interim periods.

- **3.76** Finally, annual financial information is not published on a timely basis.
- 3.77 To enhance usefulness and credibility, the government should review its strategy for publishing financial statements during the fiscal year.
- 3.78 One option the government could consider would be to discontinue the monthly financial statements, to be replaced with a few simple and key monthly measures of financial results. such as cash balances and debt levels. Only quarterly financial statements would be published. The statements would include assets and liabilities, and revenues and expenditures together with some method of comparing the quarterly results with the Budget. In addition, the government could consider having these financial statements subject to some form of review by the Auditor General.
- 3.79 To improve timeliness, the financial statements during the year should be published within no more than one month of the period end. Upon full implementation of the Financial Information Strategy, the audited financial statements included in the Annual Financial Report of the Government of Canada should be

published within no more than three months of the fiscal year end, with the *Public Accounts of Canada* tabled in Parliament as soon as possible thereafter. Annual and monthly reporting time frames should be made public in advance so that users can know when to expect financial information.

3.80 In summary, action on these recommendations coupled with the successful implementation of the Financial Information Strategy should ensure that all of the characteristics of a well-performing accounting function are present. However, to ensure the successful implementation of the Strategy, we believe the government should also consider the following observations and recommendations.

## Central guidance to the accounting function in departments and agencies

- 3.81 As noted previously, we have restricted our review of the government's accounting function to the central agencies. However, we are aware that in government departments and agencies, accrual accounting is generally not used. Further, the value of accrual accounting may not be readily apparent to staff in departments and agencies if resources granted by Parliament are not based on accrual accounting.
- 3.82 Under the Financial Information Strategy, accrual accounting will be implemented by departments and agencies. Consolidation of that information into the government's summary accounting systems will be only as successful as the credibility of the information submitted by those subsidiary organizations.
- 3.83 Most governments and private sector companies that we contacted during this study emphasized that employees

throughout an organization must recognize the value of the accounting reforms. In addition, they indicated that significant training is required, not only to underline to employees the value of the reforms but also to implement and operate them.

- 3.84 The government should assess the capability of accounting groups within departments and agencies to implement new systems and accrual accounting, and should provide strong functional guidance to them, particularly during the period of transition.
- 3.85 Chapter 2 of this Report describes work being conducted by our Office, in conjunction with the Treasury Board Secretariat, to develop a Financial Management Capability Model — a tool that, once completed, could be used by our Office and by departments and agencies to assess their financial management capability. The accounting function is part of financial management and this model may be helpful in assessing its capability. Training in the value and techniques of accrual accounting in departments and agencies needs to be developed as quickly as possible so that people throughout the entire government will be ready for its implementation.

## Amalgamation of the central accounting function

3.86 We received a clear message from officials we interviewed, particularly in the private sector, that one individual with overall authority must head up the accounting function. In the other public sector organizations we visited, we found the accounting function to be the responsibility of one senior official, while responsibility for preparing the budget normally resided with a senior official in the finance ministry.

- **3.87** We also found that the function's primary resources are people and adequate technological tools. Particularly when the accounting function is undergoing fundamental change, such as we have described for the Government of Canada, these concepts of overall authority, tools and people, described in Exhibit 3.6, are of paramount importance.
- 3.88 In the Government of Canada, no one individual has been assigned overall authority for the accounting function. At the political level, the Minister of Finance is clearly responsible for the fiscal results reported by the accounting function. However, as noted previously, very few people reporting to the Deputy Minister of Finance are involved in that function.
- 3.89 Under the Financial Administration Act, the Minister of Finance and the President of the Treasury Board are jointly responsible for certain elements of the accounting function. That Act also provides the Treasury Board with authority to establish an officer with the rank and powers of a deputy head of a department and the title of the Comptroller General of Canada. Until 1993, there was a Comptroller General of Canada who, together with the Secretary of the Treasury Board, held deputy head status and reported to the President of the Treasury Board. Since that time, however. the two functions have been combined under one position. Again, very few people in the Treasury Board Secretariat. are involved in the accounting function.
- **3.90** Finally, the Act assigns the bulk of accounting activities at the central agency level to the Deputy Receiver General for Canada (who is also the Deputy Minister of Public Works and Government Services Canada).
- 3.91 It is evident that below the Minister of Finance no individual has been assigned overall authority for the

Implementation of the government's initiatives will depend on how well departments and agencies recognize the value of the changes being made.

Someone with overall authority, the right people, and the right tools should address the significant challenges facing the government's accounting function.

Government of Canada's accounting function at the centre. Further, the activities involved in the accounting function in the central agencies are spread out among three departments, each reporting to a different deputy head. One can therefore imagine that, on occasion, three different deputy heads will have three different sets of priorities, views or interests in that portion of the accounting function that is vested in their areas of responsibility. This situation could adversely affect many of the characteristics of a good accounting function that we described earlier in this chapter.

We have brought this 3.92 fragmentation of the central accounting function to Parliament's attention in the past. In our 1976 Report, we recommended that the responsibility for maintaining the accounting records of Canada be amalgamated in the Treasury Board Secretariat under the Comptroller General of Canada. We also pointed out that this individual would have direct responsibility and accountability for all financial information systems designed for the use of the government, and the government could look to this individual for the integrity and adequacy of the financial information that it receives.

3.93 In 1987, upon the resignation of the Comptroller General, we wrote to the Clerk of the Privy Council and Secretary to the Cabinet emphasizing the need for an individual with overall authority, including the need for amalgamation of the accounting function under that person. We argued that this individual could be very useful in a lead role to make sure that ministers are not misled, by encouraging and supporting financial officers in departments and agencies to understand the importance of complete, accurate and timely information. Our view was that

financial and economic information for ministers could be challenged by this individual to ensure that standards for completeness, accuracy and reliability are met.

3.94 The purpose of this study was not to consider all of the elements of comptrollership discussed in these previous reports. We also acknowledge that our recommendations were made under different circumstances. However, our views on the government's central accounting function as one element of comptrollership have not changed, particularly in today's circumstance of the significant changes under way to accounting policies and systems.

3.95 It continues to be our view that the government should amalgamate its central accounting function. The newly amalgamated function should be led by an individual with overall authority to address the significant challenges posed by the accounting changes now under way and address the other recommendations in this chapter. The individual should have appropriate resources and be clearly accountable and responsible for addressing these challenges in a timely manner.

3.96 The decision on how and where to amalgamate the central accounting function is clearly the government's and will involve some cost, some operational disruption and, in all likelihood, legislative amendment. Nevertheless, the significant challenges faced by the function make it imperative, in our view, to amalgamate and strengthen the function as discussed and recommended in this chapter.

## Conclusion

3.97 The objectives of this chapter were to inform members of Parliament

about the importance and quality of the government's accounting function and the significant challenges it faces, and to identify concerns and make recommendations to improve the function.

3.98 We hope that our chapter will also help other readers better understand the function and its importance. And we hope that our observations and recommendations will help the government implement its Financial Information Strategy successfully, and maintain its leadership role in financial reporting within Canada and abroad.

Government's comments: The government acknowledges the findings and recommendations of the Auditor General. However, in view of the profound changes the government is undergoing in how it operates, the resources available to it, and the challenges, risks and opportunities it faces, the Secretariat has recently established an Independent Review Panel on Comptrollership that will review and make recommendations on the comptrollership function within the government. The government will consider the recommendations of this chapter in conjunction with recommendations emanating from the Independent Review Panel.



## **About the Study**

#### **Objectives**

Our objectives were:

- to inform members of Parliament about the importance and quality of the government's accounting function and the significant challenges it faces; and
- to identify concerns and make recommendations to improve the function.

## Scope and Approach

This study is based on the following key activities:

Reviewing and documenting —

- links to previous audits performed by the Office of the Auditor General and annual Observations and Opinions included in the *Public Accounts of Canada*
- links to the Financial Information Strategy

Reviewing responsibilities for the government's accounting function —

- Treasury Board Secretariat Financial and Contract Management Sector, Government Accounting Policy Division
- Finance Economic and Fiscal Policy Branch, Fiscal Policy Division
- Receiver General function in Public Works and Government Services Canada Government Operational Service Branch, Central Accounting and Reporting Sector
- Government departments, agencies and Crown corporations (only at a level required to understand their links to the responsibilities noted above)

Understanding and documenting the framework for the accounting function in government —

- description of the accounting process and major outputs
- roles and responsibilities of other related entities including: Office of the Auditor General,
  Parliament, Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered
  Accountants

The work performed included researching existing literature, and conducting interviews of officials in the following organizations:

- Department of Finance
- Treasury Board Secretariat
- Receiver General function in Public Works and Government Services Canada
- private sector companies

- other national governments
- provincial governments

In conducting interviews with officials from large private sector organizations, other national governments and provincial governments, we sought to learn how their organizations conduct their accounting and financial reporting activities, how they deal with challenges similar to those facing the Government of Canada, and what lessons they learned while addressing those challenges.

## **Study Team**

Martine Carrier Cheryl Munro Martin Ruben

For information, please contact John Hodgins, the responsible auditor.



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# Report of the Auditor General of Canada to the House of Commons

Chapter 4
Control of the Transboundary Movement
of Hazardous Waste



Report of the Auditor General of Canada to the House of Commons

Chapter 4
Control of the Transboundary Movement
of Hazardous Waste

This April 1997 Report comprises 10 chapters and a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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# Chapter 4

**Control of the Transboundary Movement of Hazardous Waste** 

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

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# **Control of the Transboundary Movement of Hazardous Waste**

Commissioner of the Environment and Sustainable Development: Brian Emmett Responsible Auditors: Dan Rubenstein or Wayne Cluskey

#### **Main Points**

- **4.1** The primary objective of this audit was to determine whether Environment Canada, in co-ordination with other federal departments and the provinces, has established an effective and comprehensive regime to control the transboundary movement of hazardous waste consistent with Canada's international commitments.
- **4.2** Environment Canada has made a good start in establishing an effective and comprehensive regime to control transboundary movements of hazardous waste, but there are still some significant deficiencies. For example, Environment Canada has yet to establish the required capacity for proactive prevention of illegal shipments of hazardous waste. At the border, there is limited enforcement action directed to detecting illegal traffic in hazardous waste.
- 4.3 Canada has an obligation, under international agreements it has signed, to control the exports and imports of hazardous wastes. Revenue Canada Customs Border Services does have an infrastructure to monitor imports on an ongoing basis, but it is not operationally set up to physically control individual export shipments.
- **4.4** There are real monetary incentives for illegal traffic. For example, the cost of processing a legal truckload of hazardous waste can range from \$300 to \$1,200 a tonne.
- 4.5 There is limited chance of detecting illegal traffic in hazardous waste at the border; inspection and effective testing of samples of potentially illegal imports and exports are limited. Moreover, there is an even lower chance of detecting illegal shipments of hazardous wastes at marine ports or railyards.
- 4.6 In an area such as controlling the transboundary movement of hazardous waste, the chain is only as strong as the weakest link. In our opinion, as a result of the significant gaps in the areas of prevention, detection and enforcement and the limited facilities to physically control exports of hazardous waste at the border, Canada is not in a position to know the extent to which it is living up to its international obligations with regard to preventing illegal traffic at the border.



#### Introduction

Canada is a significant producer of hazardous waste

- 4.7 Hazardous waste is a cost of doing business. At the heart of much of the industrialized world's present standard of living is a vast array of chemical-based consumer products that are considered essential. In the manufacturing of thousands of these products, hazardous wastes are produced despite the use of on-site reduction and recycling programs. These wastes pose a formidable challenge: how to recycle and dispose of them safely with minimal risk to the environment and human health. There is a well-established waste management industry in Canada, which is making a significant contribution to the Canadian economy. The members of this industry make considerable efforts to comply with the rules and regulations pertaining to the transboundary movement of hazardous waste.
- 4.8 **Environment Canada estimates** that 5.9 million tonnes of hazardous waste is generated in Canada each year and 3.2 million tonnes is sent to off-site specialized treatment, recycling and disposal facilities. In 1995, Canada imported 383,134 tonnes of hazardous waste, more than 70 percent of which was destined for recycling. That same year, Canada also exported 225,989 tonnes of hazardous waste, more than 55 percent of it destined for recycling. The provinces of Quebec, Ontario and British Columbia export and import the highest volumes of hazardous waste.
- 4.9 Risks to health, safety and the environment. Typical industrial hazardous wastes include heavy metal solutions and residuals; sludges and inorganic residuals; solvents and inorganic solutions; clean-up residuals; oils and

greases; paint and organic residuals; and pesticides and herbicides wastes.

4.10 Improper disposal of hazardous waste could put at risk the quality of Canada's environment and ultimately the health of Canadians, and also generate attendant clean-up costs in the future. There can be negative environmental and health effects in a receiving country, if hazardous wastes are improperly treated. Shipping a drum of hazardous waste for incineration may seem costly at \$300 but. for example, one litre of contaminated gasoline is sufficient to render a million litres of water unfit for human consumption. Moreover, through air, water or the food chain the effects of mishandled wastes may return to Canada.

# Global recognition of the need to control transboundary movements

- 4.11 Hazardous waste is an international issue. Hazardous waste is like a gas that flows into the areas of least pressure. It will continue to leak out of a jurisdiction with a strict regulatory structure if it can leak into a jurisdiction with weaker regulations. For that reason, worldwide concern about the transboundary movement and disposal of hazardous waste was heightened in the late 1970s and early 1980s. The major concern was about waste being exported from industrialized nations to developing countries for cheap disposal at inadequately prepared sites. In the 1980s the international community began to develop global agreements with three broad objectives:
- establish controls on the international transboundary movements of hazardous waste (the focus of this audit);
- encourage minimization of waste; and
- encourage environmentally sound management of hazardous waste.

Hazardous waste is like a gas that flows to the areas of least pressure, which has led to a global recognition of the need to control its transboundary movement.

Canada believes that the uncontrolled export and import of hazardous waste would be a problem for human health and the environment.

# Canada's obligations under international agreements

4.12 The Government of Canada has indicated that it believes the uncontrolled export and import of hazardous waste would be a problem for human health and the environment. Three international agreements establish Canada's main international obligations for controlling the transboundary movements of hazardous waste.

4.13 The Canada-U.S.A. Agreement on the Transboundary Movement of Hazardous Waste. The United States is

Canada's largest partner in the export and import of hazardous waste. As a result, in 1986 Canada entered into a bilateral agreement with the United States to regulate transboundary movement between the two countries. Some of the details of this agreement are set out in Exhibit 4.1. It was a logical step for Canada to extend the experience with this transboundary framework and its experience within the OECD to the broader international community.

**4.14 Basel Convention.** The Basel Convention on the Control of

Exhibit 4.1

Canada's Key International Obligations Canada/U.S. Bilateral and OECD Decision

Agreement	Excerpts: Specific Obligations to Control Transboundary Movements of Hazardous Waste				
Canada/U.S. Bilateral Agreement on the Transboundary Movement of Hazardous Wastes	<ul> <li>Exporting country must notify the importing country of proposed shipments of hazardous waste.</li> <li>Importing country has 30 days to consent, consent conditionally or object. No response within 30 days is assumed to mean consent.</li> <li>Waste shipments require a manifest.</li> <li>Exporter must provide for readmission of exports if returned by the country of import.</li> <li>Parties are responsible for ensuring that their domestic laws and regulations are enforced regarding transportation, storage, treatment, and disposal of transboundary shipments of hazardous waste.</li> </ul>				
Decisions of the Council Concerning the Control of Transfrontier Movements of Wastes Destined for Recovery Operations C(83) 180(Final); C(86) 64(Final); C(88) 90(Final); 178(Final); and C(92)39 Organization for Economic Co-operation and Development (OECD)	<ul> <li>Facility for recovery operations must be authorized by the applicable domestic law.</li> <li>Transfrontier movements must adhere to applicable international transport agreements.</li> <li>Transit through a non-member country shall be subject to applicable international and national laws and regulations.</li> <li>Three-tiered system (green, amber, red) was developed to apply to controls of wastes destined for recovery (i.e. recyclables):         <ul> <li>green tier: normal commercial controls only; non-hazardous waste.</li> <li>amber tier: valid written contract, starting with notifier and terminating at the recovery facility, including financial guarantees for alternative recycling or disposal and required notification for re-export; tacit consent; hazardous waste that poses a moderate risk.</li> <li>red tier: same controls as amber list except that written consent prior to movement must be received from the importing and any transit countries; hazardous waste that poses a high risk.</li> </ul> </li> </ul>				

Transboundary Movements of Hazardous Wastes and Their Disposal was ratified by Canada on 28 August 1992. The Basel Convention is the only global agreement specifically targeting movements of hazardous waste. The controls established by the Basel Convention attempted to:

- prevent the transfer of environmental risks to jurisdictions that do not have the capacity to manage them in an environmentally sound manner; and
- allow the export of hazardous waste when it can be ascertained that it will be managed in an environmentally sound manner.
- 4.15 The control regime established by the Basel Convention met these two goals by adopting a "prior informed consent" notification procedure. Exhibit 4.2 describes in more detail some of the key obligations related to prior informed consent. Since the Basel Convention came into force in May 1992. the parties to the Convention have conducted three Conferences of the Parties: in December 1992, in March 1994, and in September 1995. The Convention as such is a relatively new agreement, and the parties are in the process of developing new tools to meet the objectives of the Convention.
- 4.16 In September 1995, at a meeting of the Basel Convention parties, a decision was made to amend the Convention to immediately prohibit the export of hazardous waste for disposal from developed to developing countries, and to phase out by the end of 1997 and prohibit as of that date the export of hazardous waste for recycling from developed to developing countries. Although Canada did not oppose this ban, it has stated that it will not consider the ratification of the amendment until the work on the clarification of the definition of hazardous waste is completed.

- 4.17 The proposed Basel Convention ban has also renewed discussion about the relationship between Canada's obligations under the Basel Convention and its trade obligations, an issue that has been around since the beginning of the Basel Convention. The Basel Convention is one of the principal multilateral environmental agreements (MEAs) thought to raise questions of consistency with certain rules under the General Agreement on Trade and Tariffs (GATT)/World Trade Organization (WTO). The relationship between trade measures in multilateral environmental agreements and trade rules of the WTO has been taken up by the WTO Trade and Environment Committee and is currently under discussion.
- **4.18 OECD decision.** A decision on 30 March 1992 by the OECD Council applied to the transboundary movement of waste destined for recovery operations in OECD countries. It established a three-tier classification and control system based on risk criteria, as illustrated in Exhibit 4.1.
- 4.19 These major international environmental agreements to which Canada is a signatory confer upon Canada the obligation to control the export and import of hazardous waste for recycling and disposal.
- 4.20 Domestic regulatory regime. Hazardous waste is regulated in Canada in a variety of ways. The provinces are responsible for regulating the generation, treatment and disposal of all waste within their borders. The interprovincial and international movements of hazardous waste are regulated at the federal level, whereas the intraprovincial movements of hazardous waste are regulated at the provincial level, based on the federal Transportation of Dangerous Goods Regulations. Each of the provinces and territories also regulates the management

Canada has an international obligation to control its exports and imports of hazardous waste for recycling and disposal.

of waste of all kinds, including hazardous waste.

4.21 International controls. The federal government regulates the import and export of hazardous waste. In November 1992 it introduced the Export and Import of Hazardous Wastes Regulations (EIHW Regulations) promulgated under the Canadian Environmental Protection Act. These regulations control the export and import of hazardous waste in accordance with the Basel Convention, the OECD Council Decision on transboundary movements of

waste destined for recovery operations and the Canada-U.S.A. Agreement. Canada has chosen to strengthen its regulatory regime by including in these regulations some features not explicitly specified under these international agreements, such as insurance requirements, notification of imports and collection of manifest documents at the border.

**4.22** Canada's international obligations have played a large role in shaping its legislative and policy regime for controlling the transboundary movement of hazardous waste. The

Exhibit 4.2

Canada's Key International Obligations – Basel Convention

Agreement	Excerpts: Specific Obligations to Control Transboundary Movements of Hazardous Waste
Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal	<ul> <li>Parties are prohibited from exporting hazardous waste to: Antarctic region; non-parties to the Convention (except where an Article 11 agreement applies); states that have prohibited all imports of hazardous waste; states that the exporting country believes will not manage the waste in an environmentally sound manner; and states that do not consent to receive the waste.</li> </ul>
	<ul> <li>The exporting country is responsible for ensuring that its exported hazardous wastes are managed in an environmentally sound manner.</li> </ul>
	• The exporting country must notify the importing country of proposed shipments of hazardous waste; prior informed consent (PIC) procedure.
	The shipment cannot be sent unless the importing country consents in writing.
	Waste shipments require a manifest.
	There must be a contract between the exporter and importer.
	<ul> <li>Each shipment must be packaged, labelled, and transported in conformity with generally accepted and recognized international rules and standards.</li> </ul>
	• The exporter must provide for readmission of exports if returned by the country of import.
	Both the exporter and the exporting state must be informed of receipt and ultimate disposal of the waste.
	<ul> <li>Each party must introduce national legislation to prevent and punish illegal traffic of hazardous waste.</li> </ul>
	<ul> <li>Each Party shall take appropriate legal, administrative and other measures to implement and enforce the provisions of the Convention, including measures to prevent and punish conduct in contravention of the Convention.</li> </ul>
	<ul> <li>Parties may enter into bilateral, multilateral or regional agreements or arrangements regarding transboundary movements of hazardous wastes or other wastes, provided that these agreements do not derogate from the environmentally sound management of hazardous wastes as required by the Convention.</li> </ul>

effective implementation of Canada's major international agreements requires, in our opinion, a well-crafted, easily comprehensible and enforceable regulatory regime; effective promotion of compliance; effective enforcement practices; and strong partnerships between agencies and countries.

#### Focus of this audit

- 4.23 As described in greater detail at the end of this chapter in **About the**Audit, this was part of a series of audits dealing with the issue of waste minimization and what the federal government is doing to manage the environmental risks posed by hazardous waste.
- 4.24 The focus of this audit was on the main element in the federal regulatory regime for the transboundary movement of hazardous waste, the Export and Import of Hazardous Wastes Regulations (EIHWR). The audit excluded the domestic regulatory regime for the control of hazardous waste, as well as all areas of provincial jurisdiction over the management of waste of all kinds, including hazardous waste. Future audits are planned to deal with compliance promotion and enforcement of other regulations under federal environmental legislation such as the Canadian Environmental Protection Act and the Fisheries Act.
- 4.25 The primary objective of this audit was to determine whether Environment Canada, in co-ordination with other federal departments and the provinces, has established an effective and comprehensive regime to control the transboundary movement of hazardous waste one that is consistent with Canada's international environmental commitments and obligations to ensure

environmentally sound and efficient management of such wastes.

# Observations and Recommendations

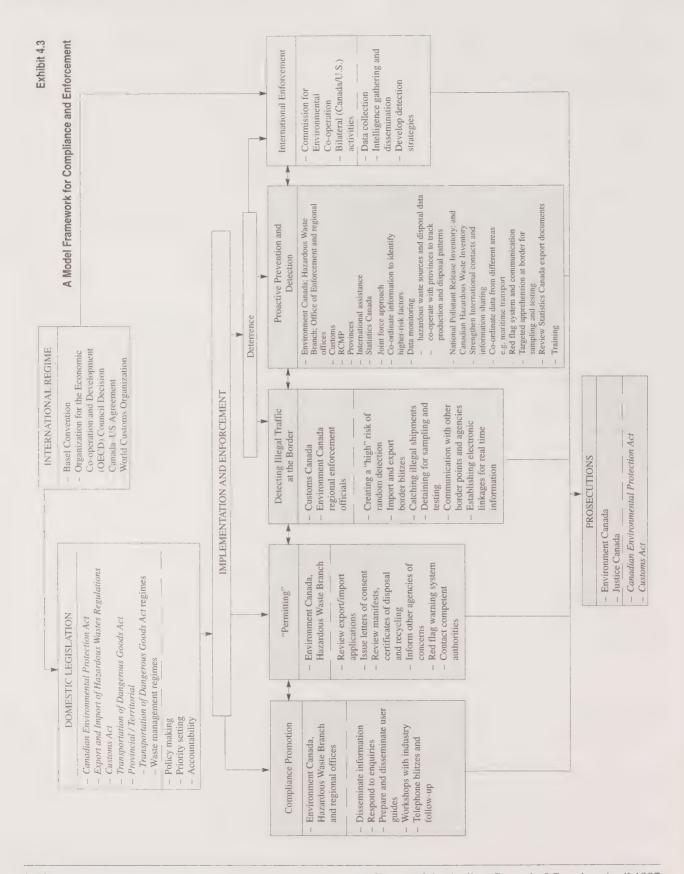
# Best Practices for Promoting Compliance and for Effective Enforcement

4.26 As part of our audit work, we reviewed best practices for controlling the transboundary movement of hazardous waste. We conducted extensive interviews in both Canada and the United States. where we researched joint force operations. The model that emerged from all of our research and interviews is illustrated in Exhibit 4.3 and described in this initial set of observations. We used this model framework as a template against which to report our observations. This framework is intended to implement the prior informed consent procedure and to track shipments of hazardous waste, as called for in international agreements to which Canada is a signatory, to both promote compliance and deter illegal shipments of hazardous waste. A common theme in all our interviews on best practices was the need for a framework that could deal with illegal traffic.

## The challenge of controlling illegal traffic

4.27 The terms "enforcement" and "compliance" are used many times throughout this chapter. It is therefore useful to make their meanings clear. Compliance means the state of conformity with the law. Compliance is secured through two types of activity: promotion and enforcement. Measures to promote compliance include communication and publication of information, consultation with parties affected by an Act, technical

The focus of this audit was on the main element in the federal regulatory regime for the transboundary movement of hazardous waste.



assistance and technology development. Enforcement activities include:

- inspection and monitoring to verify compliance;
  - investigations of violations;
- measures to compel compliance without resorting to formal court action, such as directions by inspectors, ticketing, and ministerial orders; and
- measures to compel compliance through court action, such as injunctions, prosecution, court orders upon conviction, and civil suit for recovery of costs.
- 4.28 For the purpose of this audit we have distinguished between illegal traffic and administrative non-compliance, which is also illegal. *Illegal traffic* essentially is a serious environmental crime capable of producing dangerous impacts, including threats to human health. Administrative *non-compliance* can occur through error, ignorance, and technical or relatively minor administrative breaches.
- 4.29 There can be a criminal intent to illegally dispose of hazardous wastes, in Canada, the United States or abroad, in order to avoid paying the disposal fees and to realize significant profits. The Basel Convention obliges each party to take appropriate legal, administrative and other measures to implement and enforce the provisions of the Convention, including measures to prevent and punish conduct that contravenes the Convention. The Basel Convention defines illegal traffic as any transboundary movement of hazardous wastes or others:
- without notification to all states concerned:
- without consent of all states concerned;

- with consent obtained from states through falsification, misrepresentation or fraud:
- that does not conform in a material way with the documents; or
- that results in a deliberate disposal (for example, dumping) of hazardous wastes or other wastes in contravention of the Basel Convention and of general principles of international laws.
- 4.30 Illegal traffic: deliberate false statements. Shippers who deliberately make false statements are breaking the law. There can be a deliberate misrepresentation of what the load actually contains (that is, the paperwork does not match the content of the shipment) or a deliberate misdirection (a false statement of how the material will be handled or where it will go for final disposal). Misrepresentation could occur, for example, when the shipper's manifest indicates construction material but the content is metal scrap with a high lead content, which is considered a hazardous waste. Misdirection could occur when a shipper states that a load is going to a designated treatment facility but the load is ultimately dumped by the side of the road, or shipped through Canada or the United States to an unspecified third-world country. Environment Canada cannot confirm the final destination unless it receives the required documentation. Lack of receipt of this could indicate misdirection.
- **4.31** There are also shippers who operate entirely outside the regulations and do not complete any of the required paperwork.
- **4.32** We reviewed three major studies addressing the problem of illegal traffic in hazardous waste. One report in particular revealed that Customs Border Services appreciates the potential gravity of the problem. In a 1994 report prepared by the

One study indicated that a large amount of illegal hazardous waste is moving across the Canadian border.

There are real incentives for illegal traffic.

Enforcement Directorate at Revenue Canada's Intelligence Services Division, the authors concluded that:

- "• a large amount of illegal hazardous waste is moving across the Canadian border;
- illicit hazardous waste is difficult to detect at the border;
- there is a proven involvement of organized crime in the waste management and disposal industry in the United States;
- illicit transborder movements of hazardous waste will increase."

Little chance of getting caught. We observed that there are real incentives for illegal traffic. There is considerable money to be made, a low chance of detection, and an even lower chance of receiving administrative, civil or criminal sanctions. The disposal of a legal truckload of hazardous waste, typically 22 metric tonnes, may easily cost ten thousand dollars. There are also costs for liability insurance and brokerage, and an approximately 35- to 40-day waiting period for completion of the required paperwork. Illegal shipments involve no paperwork and no recycling or disposal costs, whether disposed of in Canada or abroad. There is a small chance of getting caught given the volume of traffic at the border and the variety of substances that are potentially hazardous waste. Once violators are caught, infractions of the Export and Import of Hazardous Wastes Regulations have not resulted in large penalties.

# A model framework for compliance and enforcement

**4.34** Compliance promotion and permitting. As illustrated in Exhibit 4.3, conceptually there are four key domestic components of a model framework for

enforcement and compliance. Compliance promotion would involve disseminating information to clients such as shippers or producers of hazardous waste, as well as responding to inquiries from the general public and clients. Permitting would primarily involve reviewing export/import applications, issuing letters of consent and reviewing final documents and completion of movements. Compliance promotion and permitting would be the responsibility of Environment Canada.

#### 4.35 Detecting illegal traffic at the

border. The third component would be detecting illegal traffic at the border. This would be done by Revenue Canada's Customs Border Services and regional enforcement officials of Environment Canada. As illustrated in Exhibit 4.3, Customs officers would be the first line of defence. Ideally, Customs Border Services would exercise ongoing vigilance in looking for illegal shipments of hazardous waste. If they suspected such a shipment, they would contact Environment Canada officials who would have the requisite expertise to inspect the shipment safely and to take samples as appropriate. For this to be effective, Environment Canada as the lead agency would provide the training necessary to sensitize Customs officers to the issues surrounding hazardous waste. Furthermore, Environment Canada would provide Customs officers with a list of specific items to look for, and with intelligence information to know what shipments of hazardous waste to stop and whom to contact.

#### 4.36 Proactive prevention and

detection. Conceptually, an important component of this regime would be *proactive prevention and detection*. This would increase the effectiveness of the overall enforcement system, both through increased interceptions and through an

increase in the perceived risk of detection at the border. The goal of such an approach would be to identify high-risk situations where specific enforcement actions could be targeted. This would generally be done by joint force operations and would involve the Transboundary Movement Division and the enforcement divisions of Environment Canada, Customs Border Services, the RCMP and the provinces, as well as U.S. counterparts. Effective enforcement would require that Environment Canada interact with other agencies, developing and co-ordinating its enforcement efforts with a cognizance of the work of various domestic and international organizations focussing on hazardous waste traffic. This would involve a continuous sharing of information.

- **4.37 Prosecutions.** Although compliance is the ultimate goal, enforcement and prosecution comprise one of the established means to achieve this end.
- **4.38** International enforcement. The last component, international enforcement, would involve liaison activities between Canadian enforcers and regulators and other organizations in the international enforcement community.
- **4.39** The balance of our observations compare actual practices with the ideal federal regulatory framework previously described and illustrated in Exhibit 4.3.

# **Environment Canada Is Putting Effort into Compliance Promotion**

4.40 Compliance promotion. The Export and Import of Hazardous Wastes Regulations were introduced in November 1992. In the first two years of their implementation, the Department developed and used various tools to educate the regulated community about

the requirements of the Regulations. Following that education campaign, and based on the number of notifications and manifests received, the Department undertook to completely redesign its computerized tracking system. Environment Canada has informed us that now that the proper infrastructure is in place, the Department will be able to use this information to strengthen its enforcement program with respect to hazardous waste.

4.41 The Transboundary Movement Division of Environment Canada produced several users' guides, newsletters and other training publications. The Division recently completed an assessment of clients' satisfaction, which produced positive results. Based on our review of the documents provided to us and on our interviews at head office, in the regions and with selected shippers, we concluded that compliance promotion had been done well during the introduction of the regulations. Ongoing efforts to promote compliance include developing, publishing and distributing guidance material to the regulated industry and responding daily to inquiries on how to comply with the regulations.

#### Concerns about compliance rates

- **4.42 Permitting.** As described in Exhibit 4.3, permitting would involve managing the paperwork and approvals required by the Export and Import of Hazardous Wastes Regulations.
- 4.43 The Transboundary Movement Division of Environment Canada processes all of the information submitted by exporters, importers and transporters of hazardous waste, as required under the EIHW Regulations. Central to permitting are the systems described in the special insert on page 4-16, "The Notification and Manifest Systems". Annually, the Division

There is a need to target high-risk sectors.

Compliance promotion was done well during the introduction of the regulations.

imports, exports and transits of hazardous waste and as well as some 75,000 manifest copies to track approximately 25,000 shipments. This process includes reviewing the accuracy of submitted information for consistency with regulatory requirements, operating the computerized notification and manifest tracking system and working in close co-operation with the appropriate authorities in the provinces and in other countries, in order to obtain the consent needed to ship hazardous wastes and hazardous recyclable materials.

processes approximately 5,500 notices for

4.44 We concluded that the mechanics of the process were in place and working, but we did have concerns when we reviewed the rates of compliance with some of the regulatory provisions. Our areas of concern were the relatively low rates of compliance with the manifest requirements and with the certificates of disposal/recycling, as reported in an internal compliance report covering the period from November 1992 to December 1994.

4.45 Low compliance rates. Areas of low compliance were noted for both exports and imports, particularly with the regulatory provisions for the manifests

(28 percent compliance for exports; 53 percent for imports) and certificates of disposal/recycling (67 percent compliance for exports; 62 percent for imports). Manifesting requirements include the submission of various copies of the documents. In many cases, Environment Canada has received either the consignor or the consignee copy of the manifest, but not both. Also, the fact that manifest copies must be returned by persons from other countries makes some documents more difficult to obtain, especially from countries where the material is not regulated. As noted, compliance with the manifesting requirements is somewhat higher for imports than for exports. Exporters who ship small and infrequent quantities are less likely to be aware of and to comply with their obligations than are Canadian importers, who are mostly larger companies shipping larger volumes.

4.46 Significance of low compliance rates. The significance of low compliance rates is that Environment Canada cannot be sure that the hazardous wastes have reached their final destination or been properly disposed of or recycled. Some shipments could have been illegally shipped overseas to jurisdictions in developing countries that do not have the

# assurance that hazardous wastes have been properly treated or disposed of.

There is a lack of

#### THE NOTIFICATION AND MANIFEST SYSTEMS

All of the transboundary movements of hazardous waste are subject to the Export and Import of Hazardous Wastes Regulations, which require that a Notice of proposed export, import or transit be submitted to Environment Canada prior to shipment. This notification process allows the receiving country or province to review the hazardous waste in relation to its destination and to provide consent to Environment Canada before any shipment takes place. Each Notice is

valid for up to a year and may represent a number of shipments over that period.

Once a Notice has been approved, each shipment must be accompanied by a Canadian Waste Manifest, which describes the hazardous waste contents of a vehicle or a vessel, along with a copy of the Notice and confirmation letter issued by Environment Canada. A copy of the Manifest is sent to Environment Canada by the "generator" of the waste at the time the shipment

leaves a facility; a copy is to be dropped off at Customs when crossing the Canadian border. This copy is to be forwarded to Environment Canada. A third copy is to be sent to Environment Canada by the "receiver" of the hazardous waste. In addition, once the hazardous waste has been disposed of, or recycled, a Certificate of Disposal/Recycling is to be forwarded to Environment Canada confirming the completion of the operation.

capacity to manage them in an environmentally sound manner.

The Transboundary Movement Division reported that recent efforts have been made for export manifests, and compliance rates increased in the period from July to November 1996. However, in the same period compliance rates for import manifests dropped significantly. In our opinion, fluctuations in compliance rates should be researched to determine their causes. The Division is aware of the low compliance rates, but reported that it may not currently have the necessary capacity to improve some of these compliance rates. In our opinion, the Division needs to further analyze the root causes of non-compliance, and its nature, in order to evaluate the extent to which the non-compliance may or may not be related to administrative requirements.

4.48 Environment Canada should find solutions to improve the rates of compliance with requirements for the manifests and certificates of disposal/recycling.

Environment Canada's response: Agree. Environment Canada continues to enhance the computerized manifest and notification tracking system, which will improve its ability to assess the level of compliance of hazardous waste from the time it leaves the shipping site until final disposal or recycling and to take appropriate action. Environment Canada will allocate adequate resources to improve the rates of compliance for the manifests and certificates of disposal/recycling.

# Little Chance of Detecting Illegal Traffic

**4.49** This section of our observations describes what is *not* happening, either at the border or inland, with regard to the detection, inspection, and ultimately the

prosecution of illegal traffic in hazardous waste. (See Exhibit 4.3).

### Limited detection of illegal imports at the border

4.50 Revenue Canada Customs Border Services is the first line of defence for all imports crossing the border into Canada. Revenue Canada Customs Border Services assists 18 other federal government departments in the administration of 86 related acts and regulations. Customs Border Services assists Environment Canada in the administration of the Export and Import of Hazardous Wastes Regulations by collecting and verifying documents, detaining shipments suspected of being in non-compliance with the regulations, and visual examination of the exterior of vehicles. A Memorandum of Understanding exists between Environment Canada and Revenue Canada that outlines the roles and responsibilities of each. Customs Border Services has issued a bulletin detailing the procedures that carriers and the Department are to follow in the transboundary movement of hazardous waste. According to the Memorandum, there is no obligation for Customs Border Services to conduct inspections. However, Customs officers are to identify shipments they suspect to be hazardous waste through a visual inspection of the safety markings, description and stenciling on transport units. The responsibility for inspections rests with Environment Canada.

4.51 We visited three regions that account for 99 percent of Canada's known imports of hazardous waste. We found that Customs officers verify the completeness of the paperwork provided by truckers when shipments of hazardous waste are imported into Canada. Given that the three border crossings identified in Exhibit 4.4 are some of Canada's busiest in known

Environment Canada has not provided Customs Border Services with intelligence information.

volumes of traffic of hazardous waste, we visited them to observe current practices. We recognize that there is also a risk of illegal exportation of hazardous waste at other border crossings, particularly in regions that do not have adequate treatment and recycling facilities.

Exhibit 4.4 demonstrates the 4.52 limited level of inspections conducted by Environment Canada at the border. For example, in 1995-96 in the Quebec region there were 28 phone calls between **Environment Canada and Customs** officers at the border, and only five actual visits by Environment Canada to inspect a transboundary movement of hazardous waste at the border. During this period there were 299,963 tonnes of known legal shipments of hazardous waste (approximately 7,500 truckloads). In the same period in Ontario there were 24 phone calls and 15 border visits. The regional volume for Ontario was 245,856 tonnes of legal hazardous waste (approximately 6,147 truckloads). In the Pacific and Yukon region there were five

calls and one border visit relative to known legal shipments of 33,742 tonnes of hazardous waste (approximately 844 truckloads). The Pacific Highway crossing is very busy, with an average of 1,350 commercial vehicles using the border crossing every day. We concluded that the effort by Environment Canada to detect illegal shipments of hazardous waste at the border is limited, given the volume of shipments of hazardous waste.

4.53 In our view, more work is needed to determine the potential extent of illegal traffic in hazardous waste in Canada. Until this is done, it will be difficult to determine what level of enforcement effort is appropriate.

4.54 In May 1995, Customs Border Services implemented a Commercial Compliance Measurement Project. The mandate of this project is to measure the rate of non-compliance for all commercial vehicles at the highway border crossings. These compliance measurement activities are conducted at 12 major border crossings representing almost 80 percent

Customs officers on-site at the border, verifying documentation (see paragraph 4.51).



of highway commercial traffic entering Canada across the country. Customs Border Services recognizes the need for better intelligence information to allow it to further develop and review its strategic approach to detecting illegal traffic in hazardous waste. It stated that Environment Canada must be instrumental in providing it with information on the scope of the issues and the potential impacts on the health and safety of Canadians and others around the world, as well as the potential damage to Canada's international reputation, in order for Customs Border Services to allocate to this issue an appropriate level of priority. To date, Customs Border Services has not been provided with this information by Environment Canada.

**4.55** While the Commercial Compliance Measurement Project will not deal with exports of hazardous waste, it could be a good starting point for

Environment Canada, as the lead department, to begin quantifying the extent of potentially illegal imports of hazardous waste into Canada.

4.56 Environment Canada should work closely with Revenue Canada Customs Border Services, and other appropriate international partners, to quantify the extent of potential illegal traffic in hazardous waste into and out of Canada. This information should be used to determine an appropriate level of enforcement effort.

(A joint response from both departments follows paragraph 4.68.)

4.57 Under the Memorandum of Understanding between Environment Canada and Revenue Canada, Customs inspectors are not required to inspect shipments suspected to be hazardous waste, due to the associated personal health and safety risks. If Customs

Exhibit 4.4

Limited Detection of Illegal Imports at the Border

REGION	Q	Quebec Region		Ontario Region		Pacific and Yukon Region	
1995–96	Lacol	lle :	Total	Sarnia/Port Huron	Total	Pacific Highway	Total
Activity at the border:							
Phone Calls	14	1	28	6	24	3	5
Border Visits	2	2	5	9	15	1	1
Total	16	5	33	- 15	39	4	6
Samples Taken	(	)	0	5	12	0	0
Investigations	1		4	2	6	0	1
Warnings	(	)	0	0	1	0	0
Directives	(	)	0	0	0	0	0
REGIONAL VOLUME (tonnes)		299,963		245,856		33,742	
Equivalent # of Trucks		7,500		6,147		844	

The exhibit does not include transit referrals/reviews, facility and rail inspections.

Source: Environment Canada

inspectors did suspect shipments to be hazardous waste, they would detain the shipment and contact Environment Canada with the details. If the shipment needs to be examined, this is to be undertaken by Environment Canada in accordance with the terms of the Memorandum of Understanding. Accordingly, Customs inspectors need training sufficient to enable them to recognize a hazardous waste, and to identify industrial activities that generate waste and the parties who may be involved.

4.58 The need for more training. Environment Canada has developed briefing material to inform Customs officers about hazardous wastes regulations. When the EIHW Regulations were implemented in 1992, all Customs inspectors received training with respect to their duties under this regulation. In 1996, Environment Canada developed refresher briefing material to update Customs officers on their duties with respect to this program. To date, this refresher training has been provided in the Pacific and Yukon and the Atlantic regions and also on two occasions at Canada Customs facilities in Rigaud. Despite these efforts, we believe that enhanced training in the detection of suspect shipments is needed for Customs Border Services employees. Even at crossings with known higher volumes of hazardous waste traffic, there has not been an enhanced training effort. We believe that practical training aids could make a significant difference in sensitizing Customs officers. For example, in the case of chlorofluorocarbons (CFCs), Environment Canada provided Customs officers with training and other information. We noted that a colour poster identifying typical types of containers of banned CFCs was posted at a major border crossing. This improved the ability

of Customs officers to identify types of containers that could be used for illegal shipments of CFCs. Although we support these efforts to improve the identification skills of Customs officers, we recognize that identifying illegal hazardous waste shipments is inherently more complex than with other forms of contraband.

4.59 Environment Canada should provide Customs inspectors with training sufficient to enable them to recognize hazardous waste and to identify industrial activities that generate hazardous waste, and the parties who may be involved.

Environmental Canada's response: Agree. Environment Canada, in addition to the current training being provided to Customs officers, will enhance its training to help Customs inspectors in the recognition of hazardous waste and in the identification of targeted activities or parties that may be involved in the transboundary movement of hazardous waste.

4.60 Low number of inspections by **Environment Canada at the border.** The number of inspections by Environment Canada at the border (see Exhibit 4.4) reflects both inspections initiated by a call from Customs Border Services and those captured by a border "blitz". There is a general consensus in the enforcement community that blitzes have limited effectiveness for catching illegal traffic, largely because the element of surprise is lost after the first hour and truckers can move to other border crossings. The number of inspections undertaken by Environment Canada as shown in the exhibit includes both those that involved opening the truck and those where the inspector merely reviewed the paper manifests. In our opinion, given the volume of traffic, the number of inspections is low.

4.61 Under the current accountability structure at Environment Canada, each Regional Director of the Environmental Protection Service is responsible and accountable for all enforcement decisions made in the regions. The Office of Enforcement at Environment Canada in Ottawa has functional responsibility for both inspections and investigations. To assure the adoption of national policies and to assure national consistency and uniformity, the Office of Enforcement needs to be aware of the level of enforcement activity in the regions. Our audit revealed that the information provided to headquarters by the regions does not adequately capture the level of enforcement activity at the borders. Inspections are not broken down by location. The regional staff at Environment Canada are not in a position to report how responsive they have been to requests from Customs Border Services. For example, in one region they do not keep the records that would allow them to report that out of 28 telephone calls, a certain number led to border visits. In another region, telephone calls are not recorded at all.

4.62 Effective sampling and analysis are vital for successful prosecutions. In all three regions we visited, enforcement officials acknowledged the increasing importance of effective testing of samples from suspect shipments. They told us that it is now difficult to mount a successful criminal prosecution without a sample that respects both the exact testing protocols set out in the Transportation of Dangerous Goods Act Regulations and "the chain of custody" procedures that are essential for effective criminal prosecution. In one region with heavy volumes of hazardous waste traffic, Environment Canada officials do not sample and do not have testing facilities or a mobile laboratory available. In one case, involving a

Canadian exporter, the case did not proceed because there was no sample of the illegal shipment, and hence no physical evidence that the illegal export took place. This case was further complicated by lack of familiarity with the Export and Import of Hazardous Wastes Regulations, and the associated international agreements. As stated by Environment officials in both Ontario and British Columbia, "Without effective sampling there may be insufficient evidence to prosecute a ... case [successfully]." Therefore, the possibility of prosecution is not a significant deterrent. Exhibit 4.4 illustrates the low level of samples taken. In 1995-96 no samples were taken in two of the three regions we visited.

4.63 Environment Canada should develop and implement a management strategy for obtaining and analyzing samples of hazardous waste. At a minimum, this strategy should address the issues of training, safety, frequency of sampling, knowledge of sampling protocols, locations, equipment and access to testing facilities.

Environment Canada's response: Agree. Environment Canada will adjust its current national priority action plan for enforcing the Export and Import of Hazardous Wastes Regulations to include a management strategy to improve its ability to obtain and analyze samples of hazardous waste. It will take into account the issues of training, safety, frequency of sampling, knowledge of sampling protocols, locations, equipment and access to testing facilities.

Even lower chance of detection at ports or railyards

**4.64** No targeted inspections of containers exported by ship. By law and regulations, an interim report must be provided to Customs Border Services by an exporter, the agent of the exporter or

Inspection of train cargo is minimal.

the carrier prior to export and the vessel's sailing. As well, any documents required by other government departments' legislation are required to be provided to Customs Border Services prior to export. Given the volume of containers exported by ship, and the costs of inspecting a container, there is a need for intelligence information to be used in targeting inspections. Customs officials at the marine ports of Montreal and Vancouver advised us that virtually no imports of containers are inspected for potentially illegal shipments of hazardous waste. There are no data on the potential illegal movements of hazardous waste from Canada's marine ports. Currently, Environment Canada has not provided Customs Border Services with intelligence information that would allow it to randomly select containers for visual inspection. Containers are not randomly examined because of the high costs associated with examination and the fact that these costs are absorbed by the shipper.

Limited examination of trains. 4.65 Relatively few rail containers are examined, whether imports or exports. All cargo transported by train is normally identified on a manifest, which is provided to Customs Border Services at the first point of crossing. If Customs Border Services decides that an examination is required, it could be undertaken at the point of release, that is, at the inland rail sufferance warehouse. Customs Border Services would detain shipments of hazardous waste at a point of release, based on intelligence information from Environment Canada.

**4.66** We noted that Environment Canada has data on the level of shipments of hazardous waste by rail, but this information is not forwarded to Customs Border Services. We were not provided

with examples where intelligence information on specific train cargoes had been forwarded by Environment Canada to Customs Border Services. Customs officers and Environment Canada inspectors in the regional offices we visited had minimal knowledge of the volume of hazardous waste transported by train, legally or illegally.

4.67 Customs Border Services told us that it had recognized that there was a problem in determining the levels of non-compliance and contraband with respect to rail shipments. It told us that as a result, it is currently conducting a Rail Examination Program. It expects that this will provide additional statistical data that can be used to further assess the potential threat in containers and rail shipments.

4.68 Environment Canada should work closely with Revenue Canada Customs Border Services to quantify the extent of hazardous waste transported by ship and rail, and work to determine the extent of potentially illegal traffic. This information should be used to establish an appropriate level of detection effort.

Revenue Canada Customs Border Services and Environment Canada's joint response: Environment Canada and Revenue Canada are working together with international partners to determine the extent of potentially illegal traffic shipped via all modes of transport. The current level of enforcement and detection effort will be reviewed to strategically target the different modes of transport relative to the identified risk. A senior management steering committee, comprising Environment Canada and Revenue Canada representatives, will be established immediately to ensure that the necessary actions to determine the level of enforcement and detection efforts are undertaken.

#### Constraints to Effective Enforcement

#### The importance of setting priorities

4.69 The Department administers the Canadian Environmental Protection Act (CEPA), the Canadian Wildlife Act (CWA), the Migratory Birds Convention Act (MBCA), and the Wild Animal and Plant Protection and Regulation of International and Interprovincial Trade Act (WAPPRIITA). Under an administrative agreement with the Department of Fisheries and Oceans, Environment Canada also has primary responsibility for the pollution provisions of the Fisheries Act. As well. Environment Canada will be accountable for the soon-to-be-proclaimed Canadian **Endangered Species Protection Act** (CESPA). In all, there are more than 30 regulations administered by Environment Canada under these Acts. The bulk of them fall under CEPA and the Fisheries Act. There are approximately 20 Environment Canada offices across Canada that carry out enforcement functions. Approximately 125 Environment Canada enforcement staff operate out of five regions and at headquarters. Approximately 60 persons are investigators or inspectors in the field for the Fisheries Act and the Canadian Environmental Protection Act.

4.70 The limited availability of resources underscores the importance of setting enforcement priorities. During the past two years, the national priorities have been the enforcement of pulp and paper regulations, hazardous and banned substances and the smuggling of endangered species and their parts. As part of their management process, in 1995 the enforcement program managers prepared a national priority project plan that sets out a long-term commitment to strengthen

the enforcement of the Export and Import of Hazardous Wastes Regulations. The plan recognizes the enforcement of these relatively new regulations as a priority. It also recognizes the fact that additional partnerships with key federal, provincial and international agencies are necessary not only to help build the basic and intelligence information and institutional infrastructure for these new regulations but also to support effective investigations and prosecutions.

#### **Limited prosecutions**

#### 4.71 Enforcement results.

Investigations typically result from information received by the Environment Canada program people and from tips that suggest the possibility of systemic or extensive non-compliance. Successful prosecutions include both cases where the accused violator pleads guilty and those that go to trial and are prosecuted successfully. As illustrated in Exhibit 4.5, there have been few charges laid and even fewer convictions. However, in the past year there has been an increase in the level of enforcement activity. Officials in one region indicated to us that while they had taken a proactive approach to prosecution, in their opinion the limited number of successful prosecutions is largely a result of the complexity of the applicable laws and regulations. In our view, there is a need for additional training so those involved in enforcing and prosecuting the regulations understand their complexity.

4.72 Compliance with the regulations is the ultimate goal; successful prosecutions are an integral part of an effective deterrence strategy. We concluded that the incentives for illegal traffic in hazardous waste outweigh the present deterrents.

The number of successful prosecutions has been limited.

## Definitional problems hamper enforcement effort

- 4.73 The need for clear, understandable laws. A fundamental requirement for effective enforcement and prosecution is having laws and regulations that are clear and understandable. Enforcement officials told us that some legal cases involving the illegal traffic of hazardous waste have been stayed or have not proceeded, on the grounds of difficulties stemming from the definitions used in the *Canadian Environmental Protection Act* and the Export and Import Hazardous Wastes Regulations.
- 4.74 Moreover, the prosecutions that did proceed were generally settled prior to trial, with small amounts being paid in settlement. Consequently, the full legal impact of the EIHW Regulations has not been demonstrated through precedents established by successful criminal prosecution with meaningful sanctions.
- 4.75 The Canadian Council of Ministers of the Environment (CCME) is working to resolve some definitional problems. Environment Canada has centered its efforts on co-operation with the provinces, development of harmonized national definitions and criteria for hazardous waste movements within

Canada, in parallel with related international activities. Environment Canada reported that the work being done by the CCME on the definitions of hazardous waste is largely related to federal/provincial harmonization rather than to solving issues relating to effective enforcement.

- 4.76 We concluded that timely resolution of these complex definitional issues will be an important prerequisite to more effective enforcement. We also concluded that, to date, Environment Canada has made reasonable efforts in co-operation with the Canadian Council of Ministers of the Environment to harmonize federal/provincial definitions of hazardous waste. We support Environment Canada's efforts in this area.
- 4.77 Other constraints. Exhibit 4.6 illustrates some constraints to effective enforcement. For example, a unique tariff number would improve the ability to develop intelligence information and use it to target inspections. The World Customs Organization is working to address this issue in close co-operation with the Basel Convention Secretariat and the OECD Secretariat. The Commission of Environmental Co-operation, which involves Canada, the United States and

EXHIBIT 4.5	
Enforcement	Results

Evilation 4 E

	Quebec Region		Ontario Region		Pacific and Yukon Region	
	1988–96	1995–96	1988-96	1995–96	1988–96	1995–96
Cases Prosecuted	3	3	6	5	0	0
Number of Cases Stayed/Withdrawn	0	. 0	0	0	0	0
Number of Cases Still Before Courts	2	2	5	5	0	0
Number of Guilty Pleas/ Summary Convictions	1	1	1	0	0	0
Number of Cases of Trial Convictions	1	0	0	0	0	0

Source: Environment Canada

Mexico, is working on the development of a North American Tracking System to better control transboundary movements of hazardous waste within North America.

- 4.78 With regard to sampling at the border, Environment Canada stated that the effective taking and testing of samples of illegal imports is difficult considering the volume of traffic at border crossings and the variety of substances (some 3,200) that are potentially hazardous waste, and the limited time that shipments can be detained at the border.
- 4.79 Beyond the use of warning letters, no other broad-based sanctions, such as ticketing, are currently available other than prosecution. Without the ability to use administrative sanctions, there are no broad-based alternatives other than formal prosecution, which involves preparing court briefings and going through the court system.
- 4.80 Operational enforcement personnel repeatedly advised us that they believe there is a cultural reluctance to embrace enforcement within Environment Canada. We acknowledge that there are essentially two different philosophies that underpin the achievement of compliance with the law and enforcement. The first is based on promoting compliance through

increased awareness and education. The second is to focus on deterrence through enforcement actions, including successful prosecution. Environment Canada stated that it is attempting to strike a balance between both philosophies. We were told this poses a dilemma for those charged with enforcement responsibilities under the Export and Import of Hazardous Wastes Regulations.

- 4.81 Overall, when we compared current practices with the practices described in Exhibit 4.3, we concluded that current enforcement operations have significant gaps in the areas of detecting illegal traffic at the border and providing a deterrent to illegal transboundary movements of hazardous waste.
- 4.82 The issue for Environment Canada to consider is, "How long does a regulation have to be in place to be vigorously enforced?" Environment Canada stated that these Regulations are relatively new regulatory instruments that have merited special effort in the development of compliance tools and compliance promotion. The Department stated that once the proper infrastructure is completed, it will strengthen its efforts in enforcing the Export and Import of Hazardous Wastes Regulations. This means that, effectively, it will have taken almost five years for the Department to

Environment Canada has made reasonable efforts to harmonize definitions of hazardous waste.

Exhibit 4.6

Constraints to Effective Enforcement

Environment Canada	Customs Border Services			
<ul> <li>Limited enforcement resources</li> <li>Limited broad-based sanctions (e.g. only warnings) other than prosecutions</li> <li>Lack of sampling, equipment, intelligence infrastructure</li> <li>Cultural reluctance to embrace enforcement</li> <li>Definitional issues</li> </ul>	<ul> <li>Lack of intelligence information from Environment Canada</li> <li>Customs officials need enhanced training</li> <li>Lack of a unique tariff number assigned to hazardous waste hampers ability to develop effective targets</li> <li>Limited facilities for inspections</li> </ul>			

put in place a robust enforcement program for these Regulations. We note that shippers were required to comply with the Regulations as soon as they first came into force in 1992.

# Canada Does Not Know the Extent to Which It Is Living Up to Its International Obligations to Prevent Illegal Traffic

The inherent difficulty of controlling exports

crossings. It is inherently difficult to reconcile the need to control exports with the need to facilitate free trade at Canada's 6,000-km border. Given this inherent dilemma, we expected that once Environment Canada committed to these international agreements and their associated obligations, it would consider whether the export controls were enforceable and the options for enforcing these obligations. For example, one option could be to improve the timely exchange

of information between Revenue Canada and the United States Customs Service.

4.84 Prior to the ratification of the Basel Convention, Environment Canada stated that the enforceability of the Export and Import of Hazardous Wastes Regulations had been considered, as outlined in the Regulatory Impact Analysis Statement, and this among other things gave rise to the Memorandum of Understanding between the Department of Environment and Revenue Canada Customs.

#### Limited facilities to deal with exports

4.85 In the bulletin issued by Customs Border Services on the Export and Import of Hazardous Wastes Regulations, exporters of hazardous waste are instructed to leave a copy of their documentation (letters of authorization, notice forms and the manifest) in a collection box at the port of exit. We observed that efforts by Customs officers are hampered by the limited facilities to deal with exports. We also observed during our visits that there was limited

Heavy volume of trucks crossing the Canadian border into the U.S. (see paragraph 4.83).



effort by Customs officers to monitor compliance or to encourage compliance by truckers at the export lanes. At some locations there was no collection box, or any other facilities to deal with exports. In our opinion, these constraints make it extremely difficult to track and monitor compliance with the EIHW Regulations. Without this ability, Canada is not in a position to know the extent to which it is living up to its own regulatory requirements with respect to the collection of the export documentation, as well as its international obligations with respect to the export of hazardous waste.

4.86 Memorandum of Understanding silent about exports. The Memorandum of Understanding (MOU) signed between Environment Canada and Revenue Canada Customs Border Services requires Customs Border Services to collect a copy of the waste manifest for imports. However, on Customs' responsibilities to collect the documentation required for exports, the Memorandum is silent. In our opinion, this is a significant omission that needs to be rectified to clarify both accountability for collecting export documentation and the level of effort to be invested in controlling exports at the border.

Revenue Canada Customs Border Services and Environment Canada's joint comment: The Memorandum of Understanding between Revenue Canada and Environment Canada will be reviewed by both departments and an amendment made to include a provision that an appropriate level of effort will be established for exports relative to the degree of risk. In addition, the MOU will be reviewed by both departments in its entirety to determine if further amendments are required. The review will include, but is not limited to, the sharing of intelligence information, collection of documents and detainment of shipments. It is expected that this review, including a revised draft MOU, will be completed by 31 March 1998.

## Intelligence Data for Profiling and Targeting Illegal Traffic Are Key

Information not yet shared with all parties

information. When we visited the regional offices of both Environment Canada and Customs Border Services, we were consistently advised by their regional officials that they needed timely information from Environment Canada headquarters to use as a starting point for profiling and targeting illegal shippers, particularly information relating to the manifesting system.

4.88 Over the last two years, a new, more flexible database system has been developed and implemented to meet the needs of government users and clients. Environment Canada believes that the new computerized tracking system should be better able to accommodate modifications that enhance the availability, accessibility and usefulness of the data collected. This information could be used to profile and target potential illegal shippers. We compliment the Transboundary Movement Division of Environment Canada on these important initiatives and encourage it to continue.

More could be done by Customs Border Services with improved intelligence information. Limited intelligence infrastructure at Environment Canada

Sharing of sensitive material is 4.89 based on mutual trust. In all three regions we visited, we found that the Intelligence officers at Customs Border Services are not provided with information available at Environment Canada. This information is needed to enhance/develop their own intelligence data in order to better target Customs' detection efforts at the borders as well as its investigations. The Enforcement Branch at Environment Canada is aware of this problem but the Department does not currently have the necessary intelligence-gathering capacity to provide the information.

4.90 Grass-roots efforts to create better intelligence data. In our regional visits to Environment Canada and Customs Border Services, we did find localized efforts to begin to create the required regional intelligence

A collection box for the Hazardous Waste Manifests – exports (see paragraph 4.85).



infrastructure. For example, in the Ontario region, those responsible for enforcement have used their own intelligence information to successfully prosecute illegal offenders. In the Quebec region, personnel at Customs Border Services, including the marine divisions, have stated that they could integrate hazardous waste into their ongoing targeting program with no additional personnel if they had better intelligence information from Environment Canada.

4.91 Environment Canada should fulfill its stated responsibilities under its Memorandum of Understanding with Revenue Canada Customs Border Services to provide intelligence information to Revenue Canada Customs Border Services to be used for targeting and inspections.

Environment Canada's response: Agree.
Environment Canada is taking steps to
provide all currently available information
to Revenue Canada Customs Border
Services for it to use for targeting.
Environment Canada will also strengthen
its co-operation with other departments
and agencies for the implementation of the
Export and Import of Hazardous Wastes
Regulations, including provincial
governments, Interpol, the RCMP,
U.S. EPA, U.S. Customs and appropriate
agencies of the United States.

Interaction with other departments and agencies needs to be strengthened for hazardous waste

**4.92 The proven advantages of a joint force operation.** We were consistently told in our field visits, both within Canada and in the United States, that a joint force operation approach was the best way to maximize interaction among the regulators, the enforcers, the prosecutors and others interested in ensuring compliance with rules on the transboundary movements of hazardous waste. These joint forces exist at many

levels of government, and at levels of all the relevant organizations. Such an approach is currently used successfully to interdict illegal imports of drugs, illegal exports of strategic materials, stolen cars, etc.

- **4.93 The key players.** The most important agencies with which Environment Canada could interact include:
- Revenue Canada Customs Border Service officers (who help administer and enforce the regime at the border);
- the RCMP, provincial and municipal police;
- federal, provincial and municipal officials dealing with transportation of dangerous goods;
- federal, provincial/territorial and municipal hazardous waste officials who administer regulations governing waste management and disposal; and
  - international agencies.
- 4.94 Progress in some regions. We observed that the use of a joint force operation approach is still in its infancy in the regions. In the Pacific Region, Customs Border Services and Environment Canada have a good working partnership. Both participate in the Co-ordinated Law Enforcement Unit (CLEU), a joint force operation organized by the Province of British Columbia, Ministry of Attorney General. Other key members of this unit are the U.S. Customs Service, the provincial Ministry of Environmental Protection and Conservation, the RCMP and Transport Canada. In our view, this joint force operation approach is one that merits further attention.
- **4.95** Overall, we concluded that Environment Canada is not maximizing

the likelihood of detecting illegal activities because it is not taking a proactive approach that makes effective use of intelligence data from various sources. We also concluded that Environment Canada has not yet developed and co-ordinated its enforcement efforts with respect to the Export and Import of Hazardous Wastes Regulations, recognizing and incorporating the work of the various domestic organizations focussing on hazardous waste traffic.

4.96 For the Export and Import of Hazardous Wastes Regulations, Environment Canada should provide the necessary leadership to establish a joint force operation approach that will capitalize on the existing expertise within Environment Canada, Customs Border Services, the RCMP and others with key enforcement roles, both at headquarters and in the regions.

Royal Canadian Mounted Police's response: The RCMP investigates criminal violations of the Canadian Environmental Protection Act in conjunction with Environment Canada. We fully support the joint forces approach in these matters and the continuous sharing of information alluded to in the chapter. It is believed the RCMP can further support Environment Canada in environmental law enforcement efforts by enhancing the assistance given in the areas of criminal intelligence and international criminal investigations. In fact, our agencies are presently extensively involved at the international level through Interpol and its Environmental Crime Working Party.

Environment Canada's response: Agree. Environment Canada will enhance its ability to collect in a proactive way pertinent information from other agencies and will capitalize on its experience and expertise as well as that of others, to ensure appropriate compliance and

Some regions have made progress with joint force operations.

enforcement of the Export and Import of Hazardous Wastes Regulations.

## Leadership and Co-ordination of International Activities

#### Canada is an active player

4.97 Environment Canada is providing leadership. Canada has been actively involved in international activities to develop and maintain the international regime of controlling transboundary movement of hazardous waste. Although funding of the Basel Convention Secretariat by member governments has been an issue, Canada has consistently paid its share of funding in full, and on time.

4.98 Environment Canada has been leading and co-ordinating the negotiation of Canada's international obligations concerning the transboundary movement of hazardous waste. Our interviews with other government departments revealed that they believe Environment Canada is doing a credible, professional job in this area.

## More information and analyses for decision making required

4.99 The proposed ban. As discussed earlier, the Government of Canada is facing a decision on whether to ratify a recent amendment to the Basel Convention that would ban shipments of hazardous waste recyclables from developed to developing countries. This decision involves two key elements: an immediate ban on shipments of material intended for final disposal; and a ban by 31 December 1997 on hazardous waste shipments destined for recycling or recovery. We were advised in our interviews that the first element is generally supported by most stakeholders

but that the second element is more controversial.

- **4.100** Information and analysis for decision making. Sound decision making about the potential policy trade-offs associated with the proposed ban on shipments of recyclables will require solid information and analysis of the issues. Notably, we expected to find analysis of:
- the environmental impacts associated with a ban on shipments of recyclables;
- Canada's potential economic interests in developing country export markets for recyclable waste; and
- how Canada might address any potential inconsistencies between its international environmental and trade policies and obligations.

#### 4.101 The environmental analysis.

Canada is on record that it will not consider ratifying the ban decision taken by the global community under the Basel Convention until the technical issues associated with the definition of hazardous waste have been resolved. In its response to the review of the Canadian Environmental Protection Act by the Standing Committee of the Environment and Sustainable Development, the Government of Canada has agreed to amend the Canadian Environmental Protection Act to clarify the authority to make regulations to ban exports and imports of hazardous waste to and from any country, when required under international agreements to which Canada is a party.

4.102 Once the definitional issues are resolved, Environment Canada should determine whether it needs to analyze both the positive and negative environmental effects of the proposed ban, as it will relate to the new revised list of hazardous wastes.

Environment Canada's response: Once the lists of hazardous wastes have been

Environment Canada is doing a credible and professional job.

finalized by the Technical Working Group under the Basel Convention, Environment Canada will carry out an assessment of risk posed by such wastes when exported to facilities that do not operate in an environmentally sound manner.

4.103 The economic analysis. Records indicate that Canada has not authorized any shipments of hazardous waste for recycling to a developing country, but concern has been expressed about the loss of potential future opportunities for such shipments. We would think that federal government departments expressing these concerns would have encouraged a process to analyze the economic issues. While some analysis has been done, we found that these other government departments had not completed an integrated, cross-sectoral, forward-looking analysis consistent with the concerns they had expressed. The lack of an agreed-upon definition is a constraint to completing this analysis.

International trade and 4.104 environment policy analysis. We found that trade policy concerns have been expressed about the proposed ban. There was some concern about inconsistency between the Basel Convention ban decision and Canada's trade obligations. However, we were not provided with a comprehensive analysis of this issue. While some analysis is being done, we were not provided with a comprehensive analysis to indicate how Canada might remedy any potential inconsistencies between its policies and obligations, in keeping with Canada's stated view that liberalized trade and environmental protection are, in principle, mutually compatible and indeed supportive.

**4.105 Decision making.** We concluded that such analysis would be of assistance to the government in making a decision on the ban on shipments of recyclable

hazardous waste. We concluded also that to facilitate decision making in the future, this analysis should be integrated into a process to establish a coherent and forward-looking strategic plan for future activities under the Basel Convention. We are supportive of Environment Canada's leadership initiatives in this complex area.

#### Conclusion

4.106 The primary objective of this audit was to determine whether Environment Canada, in co-ordination with other federal departments and other provinces, has established an effective and comprehensive regime to control the transboundary movement of hazardous waste consistent with Canada's international commitments. Environment Canada has made a good start in establishing such a regime but, as noted in this chapter, there are still some significant deficiencies. Relative to the audit's sub-objectives as shown in About the Audit, we concluded that:

- Environment Canada has yet to take appropriate enforcement action with regard to detecting illegal traffic in hazardous waste at the border and establishing the required intelligence capacity necessary for proactive prevention of illegal shipments. This is not the first time this Office has noted problems in the area of enforcement. In 1991 we reported that priorities for enforcement and compliance had not been clearly defined and that enforcement and compliance activities were not well monitored and evaluated.
- Environment Canada plays a leadership role, both domestically and internationally, in the area of the transboundary movement of hazardous waste.
- Environment Canada promotes and monitors compliance with the Export and Import of Hazardous Wastes Regulations.

#### Control of the Transboundary Movement of Hazardous Waste

It has established and operates the notification and manifest systems, which are an important component of Canada's response to meeting its international obligations. During the introduction of the regulations, Environment Canada's compliance promotion activities were done well.

- Environment Canada is promoting efforts to harmonize federal and provincial definitions of hazardous waste.
- 4.107 In an area such as controlling the transboundary movements of hazardous wastes, the chain is only as strong as the weakest link. In our opinion, as a result of the significant gaps in the areas of prevention, detection and enforcement and the limited facilities to physically control exports of hazardous waste at the border, Canada is not in a position to know the extent to which it is living up to its international obligations with regard to preventing illegal traffic at the border.

Environment Canada's response: The Department concurs with the Auditor General's observations.

Canada is fully committed to meeting its international obligations concerning transboundary movements of hazardous wastes, and consequently, the Department has identified the enforcement of the Export and Import of Hazardous Wastes Regulations as a priority.

The Department is committed to working with other countries that have concerns regarding the prevention and detection of illegal traffic of hazardous waste, and will undertake to do so within the Basel Convention and Interpol.

The proposed revision to the Canadian Environmental Protection Act will go a long way to ensure that Canada has a rigorous regulatory regime to meet its international commitments regarding the transboundary movements of hazardous wastes.



#### **About the Audit**

There is growing global awareness that managing with due regard to sustainable development means minimizing waste, or preventing the creation of hazardous waste in the first place. This audit is part of a series of audits dealing with the issue of waste minimization and what the federal government is doing to manage the environmental risks posed by hazardous waste.

The focus of this audit was on the main element in the federal regulatory regime for hazardous waste, the Export and Import of Hazardous Wastes Regulations (EIHWR) promulgated under the *Canadian Environmental Protection Act* (CEPA). Future audits will deal with compliance promotion and enforcement of other federal environmental legislation such as the *Canadian Environmental Protection Act* and the *Fisheries Act*, as well as other pieces of environmental legislation that the federal government is accountable for enforcing.

#### **Objective**

The primary objective of this audit was to determine whether Environment Canada, in co-ordination with other federal departments and the provinces, has established an effective and comprehensive regime to control the transboundary movement of hazardous waste consistent with Canada's international environmental commitments and obligations to ensure environmentally sound and efficient management of such wastes.

There were four audit sub-objectives: to determine whether Canada is meeting its commitments and obligations under international agreements; to determine the extent to which Environment Canada plays a leadership role, both domestically and internationally; to determine the extent to which Environment Canada promotes and monitors compliance and takes appropriate enforcement action; and to look at efforts to harmonize federal and provincial definitions of hazardous wastes.

#### Scope and Approach

The audit examined the leadership provided by the Hazardous Waste Branch, Transboundary Movement Division at Environment Canada with regard to international environmental agreements. Interviews were conducted at Environment Canada, Natural Resources Canada, Industry Canada and Foreign Affairs and International Trade. The audit also included a review of the Division's work to develop harmonized Canadian definitions of hazardous waste, as well as the Division's role in compliance promotion activities. The audit focussed on the enforcement activities undertaken by Environment Canada at head office by the Enforcement Branch, Environmental Protection Services, as well as activities in the regions. Detailed audit work was done at the Canadian/U.S. border crossings that have the highest known volume of legal hazardous waste exports and imports: Lacolle, Quebec; Sarnia, Ontario; and, on the Pacific highway, British Columbia. The objective of these field visits was to determine the extent to which the regulations under the federal Export and Import of Hazardous Wastes Regulations, as well as international obligations, are being administered at border crossings. During these field visits we conducted field work at Revenue Canada (Customs), speaking with Customs inspectors at the border as well as intelligence officers responsible for profiling illegal shippers of hazardous waste. In these regions we also interviewed Environment Canada personnel responsible for enforcing these regulations. Our work excluded interviews and examination of documents in areas of provincial jurisdiction. Our work also excluded transboundary movement of hazardous wastes by air.

The scope of this audit excluded areas of the domestic regulatory regime under provincial jurisdiction, such as the regulation of transportation of hazardous waste within provinces as well as the provincial regulation of the management of wastes of all kinds, including hazardous wastes. This audit also excluded the transportation of hazardous wastes within Canada.

#### Criteria

We expected that Environment Canada could demonstrate that Canada is fulfilling its international commitments and obligations with respect to the transboundary movement of hazardous waste. We expected that the Department could demonstrate that the different elements of Canada's regime for controlling transboundary movement of hazardous waste are supportive of efforts to improve the sound management of hazardous waste and waste minimization. With regard to the leadership role of Environment Canada, we expected that the Department would demonstrate federal leadership, by developing national policies, setting national standards and managing issues related to the transboundary movement of hazardous waste across Canada's borders. With regard to enforcement and compliance, we expected that the Department would inspect shipments, monitor to verify compliance and investigate suspected violations of the regulations and ensure appropriate deterrence of violations. We expected that when an investigation confirms a violation the Department could ensure that corrective action is taken. With regard to co-ordination with the provinces, we expected that the Department would assess areas of overlap and duplication and, where appropriate, develop appropriate approaches to minimize such overlap and duplication, and develop strategies to fill any gaps.

#### **Audit Team**

John Affleck Frank Barrett

For information, please contact Wayne Cluskey or Dan Rubenstein, the responsible auditors.

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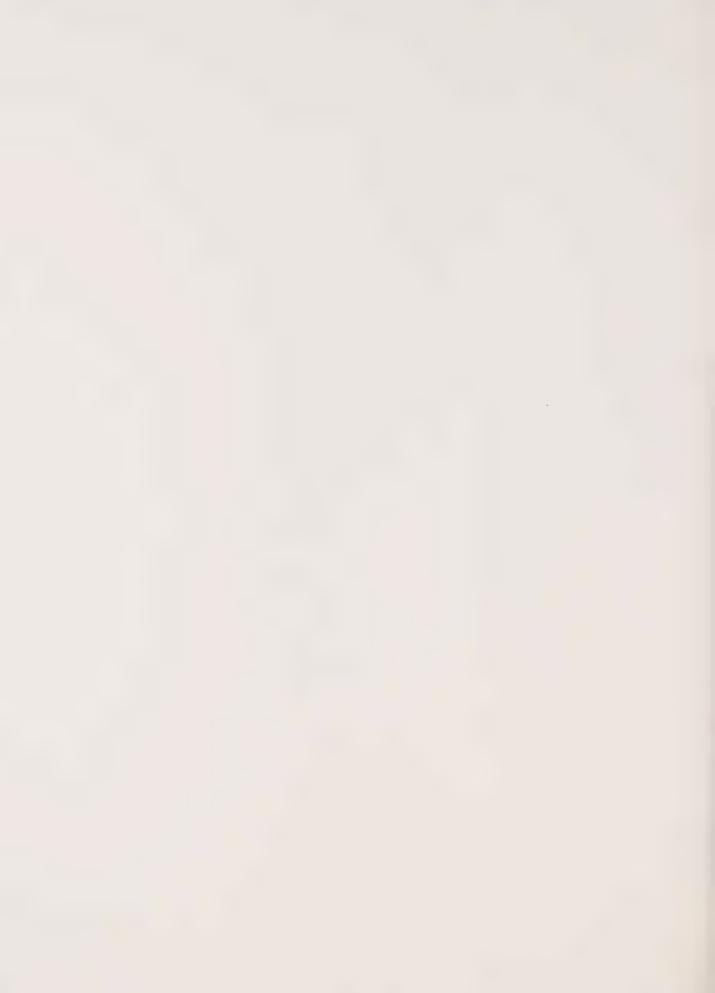
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## Report of the Auditor General of Canada to the House of Commons

Chapter 5
Reporting Performance in the Expenditure
Management System

**April 1997** 



## Report of the Auditor General of Canada to the House of Commons

Chapter 5
Reporting Performance in the Expenditure
Management System

This April 1997 Report comprises 10 chapters and a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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## **Chapter 5**

Reporting Performance in the Expenditure Management System The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

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## Reporting Performance in the Expenditure Management System

Assistant Auditor General: Maria Barrados Responsible Auditor: John Mayne

#### **Main Points**

- 5.1 Information on how well programs are doing is needed to make informed decisions on how to spend tax dollars and improve programs, and to demonstrate to Parliament and Canadians what they are getting for their taxes. Often, neither the public nor members of Parliament, or managers, have this information. The focus has too often been on describing the services delivered, rather than their results.
- 5.2 The federal government is in the process of revamping its Expenditure Management System, the process by which it plans, budgets and seeks parliamentary approval of future expenditures. The changes create an incentive for departments to develop better information that helps managers provide more effective programs to Canadians and inform Parliament in a more timely way about the results of their activities. Some Canadian provinces and governments abroad have already made important strides toward providing their legislatures and citizens with better information about the performance of government programs.
- 5.3 Progress has been made by several departments, and we found instances in which performance information reported to Parliament addressed many key aspects of performance reporting. In particular, we found improvement in the information's orientation to results. But to fully realize the potential, departments need to describe expected performance more clearly and concretely that is, in more measurable terms. The account they give of performance needs to focus more on the benefits for Canadians. This will take time.
- **5.4** Further progress requires strong leadership by the Treasury Board Secretariat and senior departmental managers. The Treasury Board Secretariat has implemented positive innovations in a short period of time, but needs to improve the consistency of the assistance it provides to departments as well as its efforts to document and communicate good practices in measuring and reporting performance.
- 5.5 The role of parliamentary standing committees is vital to continued progress. If committees ask for information on the results of government activities and visibly use the information in their deliberations, departments will have a powerful incentive to collect and report the information.



#### Introduction

## A Need for Information on How Well Programs Are Doing

Information on performance is required for good management and effective governance

5.6 Knowing how well programs and services are doing is increasingly essential to managing today's public sector, as governments here and abroad face resource reductions and a citizenry that continues to want good value from its government. Credible information on the results being achieved is needed for three reasons:

• To manage tax dollars better.

Government expenditures are being reduced, but many Canadians still feel they are overtaxed. It is therefore more important than ever that tax dollars be spent efficiently and effectively. Ministers receive a range of information to consider in making decisions on future spending and priorities. Information on what current spending is accomplishing needs to be a key element of advice, particularly when resources for new initiatives must be reallocated from existing expenditures. Managers need timely information on what is working and what is not so they can direct resources to where they are most effective.

- To make better decisions. Officials need this kind of information on performance for the many day-to-day decisions they must make to manage effectively the programs and services provided to Canadians.
- To provide for better accountability. Canadians are demanding greater accountability from their governments. Trends in public opinion show a reduced confidence in government and, in a recent survey, the item most often cited as necessary for improved

governance was accountability for measured results and effectiveness. Increasingly, Canadians are asking for better information on what they and their country are getting for their tax dollars; members of Parliament have expressed frustration at the lack of this kind of information. Moreover, with governments seeking alternative ways of delivering programs and services that involve other levels of government and voluntary and private organizations, credible information on performance is needed even more to ensure that tax dollars are being spent well.

5.7 The government has committed itself to creating a management culture that is fact-based, results-oriented, open and accountable. As we suggested in the chapter "Matters of Special Importance" in our November 1996 Report, openness and candor about the performance of programs will help to build public trust. We also suggested that progress in providing credible performance information has often been hindered by insufficient will and inadequate demand for such information. Strong leadership is needed to make measurement and reporting of results an integral part of public sector management.

## Other jurisdictions report on accomplishments

visible efforts to provide their legislatures and citizens with better information about the performance of government programs. In Canada, in addition to the federal government, a number of provinces have moved in this direction. Appendix A outlines the reporting regimes in Alberta, Nova Scotia and New Brunswick as examples. Abroad, quite a few countries have moved to improve reporting of the performance of their governments as a whole and of individual departments and agencies. Appendix A briefly describes

Knowing how well programs and services are doing is increasingly essential to managing today's public sector.

Many jurisdictions are making visible efforts to provide their legislatures and citizens with better information about the performance of government programs.

the cases of the United Kingdom and Australia, as well as the United States federal government and the states of Oregon, Texas and Minnesota.

5.9 We did not examine the success of initiatives undertaken in other jurisdictions or assess the extent to which better performance information is being provided than is the case in Canada. However, the experience reported by these jurisdictions shows that although providing performance information is not easy, it can be done. It is also clear that several years will be needed to fully implement initiatives to improve performance reporting.

#### What is "performance"?

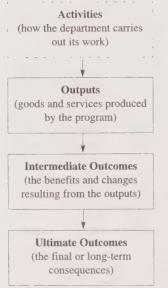
- 5.10 The concept of performance deals with how well things are done:
- Were the expected results accomplished?
- Were they accomplished within budget and in the most efficient manner?
- Were there undue, unintended consequences?

It also deals with whether the performance achieved will continue or improve:

- Is the organization learning and adapting?
- 5.11 Performance, then, covers a number of ideas, and determining the specific aspect of performance to measure, and when, is not straightforward. Government programs undertake a number of activities that produce a variety of products, services, benefits and other impacts and effects (see Exhibit 5.1). We refer to these collectively as the results achieved. Programs deliver two kinds of results: outputs, the direct products and services produced by government activities, such as an unemployment cheque or some requested information; and outcomes, the impacts and effects of those outputs on Canadians and our society, including fair and equitable treatment. Outputs are results that managers can control, while the outcomes managers are trying to accomplish are influenced by factors outside their programs.
- **5.12** Outcomes can range from **intermediate outcomes**, such as changes

Exhibit 5.1

Program Results



#### Examples:

negotiating, consulting, inspecting, drafting legislation

#### **Examples:**

checks delivered, advice given, people processed, information provided, reports produced

#### **Examples:**

satisfied users, jobs found, equitable treatment, illegal entries stopped, better decisions made

#### Examples

environment improved, stronger economy, safer streets, energy saved

in the actions of program clients and their satisfaction with a service, to more long-term or **ultimate outcomes** such as general improvements in the well-being of Canadians, the economy or the environment. Intermediate outcomes are more easily linked to the activities of a program than are ultimate outcomes.

5.13 Exhibit 5.2 illustrates how the various results of an anti-smoking program could be characterized. Another example can be found in Chapter 10 of this Report, which presents a diagram of results for an activity providing information on energy efficiency (Exhibit 10.5).

## Knowing how well programs are working is a challenge

**5.14** Complex programs mean that expectations must be clear. Federal programs operate in a complex environment. They often have to deal with a diverse and uncertain number of external factors and other players with similar or competing objectives. Moreover, they do not operate in a stable environment; change is now the norm. Furthermore, programs are trying to accomplish broad

public objectives reflecting the public interest, which sometimes can be a challenge to measure.

- 5.15 Different individuals with different expectations about what a program is supposed to accomplish can reach different conclusions about how well the program is doing. Assessment of actual performance requires the establishment of a standard for comparison, such as a specified level of expected performance. These standards ought to be clearly stated as meaningful performance expectations.
- 5.16 Information on a program's performance must be gathered. In some cases, individuals can assess the direct service that each has received — such as assistance in submitting income tax returns, employment guidance or an import permit for a commercial shipment. But more information is needed to assess the overall success of a program, such as whether it ensures that Canadians pay their fair share of taxes, or adequately reduces the risk to specific endangered species. The managers of the programs need the same information if they are to manage for results. Gathering and

Exhibit 5.2

An Anti-Smoking Program

Result Type	Specific Program Result*
Outputs	<ul> <li>anti-smoking advertisements and promotions</li> <li>educational material distributed</li> <li>enforcement of smoking regulations</li> </ul>
Intermediate Outcomes	<ul> <li>compliance with regulations</li> <li>reduced number of smokers in total</li> <li>reduced numbers of new smokers</li> </ul>
Ultimate Outcomes	<ul> <li>reduced incidence of smoke-related health problems and deaths</li> <li>reduced costs of health care associated with smoking-related problems</li> </ul>

<sup>\*</sup> *Performance expectations* for these results would be the desired performance levels or changes, expressed, for example, in numbers or percentages for a given time period and target audience.

Exhibit 5.3 The Revised Expenditure Management System C+2 C+1 APRIL Cabinet Budget Decisions JANUARY Period for Budget Consultation Performance Reports, Standing Committee Consideration of Standing Committee on Finance Budget Cabinet Budget Consultation Consultation Departmental Performance Previous FYs TB President's Reports Current (C) Report OCTOBER Public Accounts Cabinet Review of Priorities JULY Standing Committee Consideration of Business Plans Departmental Estimates APRIL FY: C, C+1, C+2 Reports on Plans Departmental and Priorities Main Estimates Parts I and II Budget Previous Cabinet Budget Decisions FISCAL YEAR (FY)

New Documents

assessing the relevant data and information requires systematic effort.

5.17 Information on program performance is an essential part of the process by which the government plans, budgets and seeks parliamentary approval for future expenditures. This process is the expenditure management system.

#### The Expenditure Management System Has Been Revised

### A focus on results of programs in a world of no new resources

- 5.18 Expenditure management in the federal government during much of the 1980s and into the early 1990s was characterized by numerous, relatively small, across-the-board expenditure cuts and occasional freezes on expenditures. At the same time, managers were given access to policy and operational reserve funds, albeit in diminishing amounts. Although cumulatively the incremental reductions were significant, expenditure growth was not contained.
- 5.19 Moreover, the expenditure management system did not meet basic information needs. Our 1990 study of efficiency in government found that the planning and accountability documents required at that time often did not contain information pertinent to managing for efficiency. A year later, we noted that it was hard to manage by results when few meaningful ways to measure them had been put into use.

#### 5.20 Revisions introduced in 1995.

The revised Expenditure Management System (EMS) was announced in 1995 in the context of the government's aim to reduce the deficit to three percent of GDP. In the 1995 publication "The Expenditure Management System of the Government of Canada", the President of the Treasury

Board noted that "the old ways [of managing expenditures | clearly [did] not work in a time of severe fiscal restraint." A key feature was to "improv[e] information on program performance to aid decision-making and facilitate accountability." Another key feature was the elimination of central policy reserves to fund new initiatives, since "central policy reserves did not encourage the ongoing review of existing programs and spending." New initiatives were to be funded through reallocation of existing resources. The Program Review the government undertook in 1994 identified specific programs and services to be reduced or eliminated.

5.21 As we have reported in the past, previous attempts at gathering and reporting performance information have met with limited success. None, however, was driven by the current need to make difficult spending choices and to gather support for reducing expenditures.

#### A framework for the revised Expenditure Management System

5.22 The main features of the revised EMS were contained in a document tabled in the House of Commons in February 1995. Subsequently, additional refinements have been developed and are being implemented, sometimes on a pilot basis. Exhibit 5.3 identifies the various documents and processes that make up the Expenditure Management System.

# 5.23 From Parliament's perspective. Phase II of EMS reform (Phase I was the introduction of Business Plans described in paragraph 5.29), known as the Improved Reporting to Parliament Project, is intended to improve the expenditure management, planning and performance information that goes to Parliament. The

major changes are in the Estimates

Information on program performance is an essential part of the process by which the government plans, budgets and seeks parliamentary approval for future expenditures.

EMS reform is intended to improve the expenditure management, planning and performance information that goes to Parliament.

documents and the way they are dealt with by Parliament.

- 5.24 The Estimates are currently in three parts: Part I, the overview of government spending; Part II, the proposed appropriations; and Part III, detailed expenditure plans for each department and agency. The intention now is to split Part III into two new documents:
- a Report on Plans and Priorities, tabled in the spring in conjunction with Parts I and II of the Estimates, and intended to establish performance expectations and outline the general direction the minister wants the department to take during the estimates year and the next two fiscal years; and
- a *Performance Report* tabled in the fall for the period at least up to the previous 31 March, and intended to provide information on results actually achieved in serving Canadians both as clients of specific services and as taxpayers.
- **5.25** Both of these new reports would be Estimates documents, tabled in the House and referred to the appropriate standing committees.
- 5.26 In addition, the government is testing an In-Year Update to Parliament in the fall as a complementary document to Supplementary Estimates, noting any significant changes in either the financial or non-financial figures tabled the previous March in the Main Estimates for the current year.
- 5.27 The timing of the spring plans and fall Performance Reports is intended to enhance the role of standing committees. Fall Performance Reports enable committees, in a timely way, to report their conclusions to the House and to make their views known to the government as it carries out its fall budget consultations. Standing committees may

- thereby influence spending plans and priorities of the next or subsequent years. Similarly, spring plans may provide a focus for committee reporting to the House on future years' plans and priorities, facilitated by 1994 changes in House rules.
- 5.28 The key milestones in the Improved Reporting to Parliament Project are outlined in Exhibit 5.4. The Outlook documents mentioned in the exhibit were introduced in response to the February 1994 changes in House rules and will be subsumed by the Reports on Plans and Priorities. Sixteen pilot Performance Reports were tabled in the fall of 1996 (see Exhibit 5.5 for a listing of these departments). Pilot Reports on Plans and Priorities were tabled in the spring of 1997 by these departments, along with the 1997-98 Main Estimates.
- 5.29 Within government, business plans are being prepared. An integral element of the EMS is the Treasury Board requirement for departmental Business Plans to be submitted to the Board for review, in place of multi-year operational plans. Business Plans are concise, strategic, three-year plans that set out goals, targets and performance measures. Several provinces, including Alberta, Ontario, and New Brunswick, also have adopted this approach.
- 5.30 The intention of the government is that Business Plans are to be the main planning document of departments and submitted to Treasury Board ministers. Although these are not public documents, the public Reports on Plans and Priorities will integrate the business planning information with other reporting requirements established by Parliament.
- **5.31** An important element of the revised EMS entails departments moving to a comprehensive, results-focussed accountability structure for reporting

financial and non-financial information, known as the Planning, Reporting and Accountability Structure (PRAS). The PRAS relates the internal management and accountability regime of the department to its objectives, business lines, resource requirements and performance targets. It is intended to provide the basis for reporting in Business Plans and Estimates documents.

#### **Focus of the Audit**

**5.32** Because of the length of time needed to make major changes and the need to adapt to changing circumstances, implementation of the revisions to the Expenditure Management System is

ongoing. We could have waited until the system was fully mature before auditing in this area. However, we decided that it would be more useful to communicate clearly our expectations and assessment of progress at this time, so that they can contribute to the ongoing implementation of the system.

5.33 We undertook the audit to assess the progress departments are making in their reporting of expected and actual performance in the Expenditure Management System. We also sought to identify examples of good reporting practices that exemplify our expectations (set out in detail in Appendix B). These expectations were developed in

Exhibit	5.4

Milestones in the Improved Reporting to Parliament Project

Spring 1995	Treasury Board Secretariat initiates project. Parliamentary Working Group established.
	Departments provide Outlook documents to their respective standing committees.
June 1995	Subcommittee on Business of Supply of the Standing Committee on Procedure and House Affairs established.
November 1995	The first annual report of the President of Treasury Board to Parliament tabled.
December 1995	House of Commons motion concurs with report of Standing Committee on Procedure and House Affairs, agreeing to Estimates Part III pilot project.
March 1996	Six departments table pilot 1996–97 Estimates Part III.
	Remaining departments provide Outlook documents.
April 1996	Forum on Performance Reporting – members of Parliament, pilot departments, the Auditor General, Treasury Board Secretariat officials.
June 1996	Evaluation report on pilot Estimates Part III recommends splitting planning and performance information into separate documents. House concurs with report of Standing Committee on Procedure and House Affairs, agreeing to extend pilot to include departmental Performance Reports and an In-Year Update, and to expand to 16 departments.
October 1996	Sixteen departments table pilot Performance Reports for the fiscal year ended 31 March 1996. President of Treasury Board tables annual report with Annex B – Key results commitments by departments.
November 1996	In-Year Update tabled for the 16 pilot departments.
December 1996	Evaluation report on the 16 fall Performance Reports.
February 1997	Reports on Plans and Priorities tabled for the 16 pilot departments. The remaining departments table revised Estimates Part III, along the lines tabled in March, 1996.

consultation with the Treasury Board Secretariat. They are based on our assessment of experience in Canada and other jurisdictions. We identified five characteristics needed to give a credible account of performance:

- clear context and strategies;
- meaningful performance expectations;
- accomplishments reported against expectations;
- demonstrated capacity to learn and adapt; and
- fair and reliable performance information.
- 5.34 Because of the newness of changes in this area, we did not expect to see all of these expectations for good reporting reflected in all of the performance information now provided in the revised Expenditure Management System. The audit focusses on information

performance provided in key documents that form part of the Expenditure Management System. Chapter 2 of this Report, "Financial Management: Developing a Capability Model", and Chapter 3, "Management of the Government's Accounting Function: A Central Agency Perspective", deal with financial matters.

about non-financial, rather than financial,

5.35 We also examined the role played by the Treasury Board Secretariat in implementing innovations to encourage better reporting of information on performance, and the use made of this information by parliamentary standing committees. Full details on the conduct of the audit can be found at the end of the chapter in **About the Audit**.

## Observations and Recommendations

#### Revised Estimates Framework Shows Potential for a Greater Focus on Results

More opportunities for standing committees to comment on results

#### 5.36 An emphasis on results.

Communications about the revisions to the Expenditure Management System and related Estimates documents emphasize an important message — the need for departments to make available information on what programs are intended to achieve and what they are accomplishing.

5.37 Separate reports fit the budget cycle better. Information contained in the Main Estimates submitted to Parliament each spring by the government is the basis for parliamentary approval of resources the government requires for the coming fiscal year. The Estimates contain a mix of

Exhibit 5.5

**The Pilot Departments** 

The following 16 departments and agencies led the implementation of improvements to performance reporting in the Expenditure Management System. They agreed to be the first to table Performance Reports in Parliament, in the fall of 1996:

Agriculture and Agri-Food Canada Atlantic Canada Opportunities Agency Environment Canada Fisheries and Oceans Immigration and Refugee Board Indian and Northern Affairs National Energy Board National Parole Board Natural Resources Canada Revenue Canada Royal Canadian Mounted Police Statistics Canada Status of Women Transport Canada Treasury Board Secretariat Veterans Affairs

financial and non-financial information that covers past expenditures and accomplishments, year-to-year financial reconciliation, and planned expenditures and activities. By separating information on future plans from information on past performance, especially in the fall Performance Reports, the new framework draws more attention to the performance achieved by programs. It also provides performance information on previous fiscal years five to six months earlier than before, serving as timely input to budget consultations.

5.38 **In-Year Update potentially** provides better information on changes to expectations. Supplementary Estimates are requests for changes to program funding in the Main Estimates. In November 1996, an In-Year Update report covering the 16 pilot departments was tabled, to test a way of complementing Supplementary Estimates by providing better information to Parliament on significant adjustments to program priorities, expectations, and changes in planned spending. The In-Year Update is intended to make Parliament more aware of program changes that have significant impacts on Canadians. We assessed the nature of the departmental input to the In-Year Update and found that none reported changes to expected performance, although some had proposed significant resource changes. The Report did provide some helpful information on resource reallocation that would not be evident in the Supplementary Estimates.

### Promising improvements in accessibility of information

**5.39** Improved timing of reports is, in itself, not sufficient to make information useful. We also expected the information to be organized and presented so that it is

easily understood and the reader can readily access other desired information.

5.40 Promising improvements in accessibility through information technology. Treasury Board Secretariat staff are working with departments and the House of Commons to improve the electronic distribution of pilot documents. The intention is to use the Internet as the main tool for electronic communication of these documents to all MPs, their staffs. and the public. To date, the pilot Performance Reports, the In-Year Update report, the 1997-98 Reports on Plans and Priorities and all Estimates Part III are available through the Internet at http://www.tbs-sct.gc.ca/tb/rpem/ homee.html. The intention is to continue this practice. In addition, the Review Information Network of the Secretariat Internet web site (http://www.info.tbs-sct.gc.ca/ rin hm e.html) contains information on hundreds of recent reviews of various aspects of performance of selected programs.

A Parliamentary Working Group 5.41 on the Improved Reporting to Parliament Project was convened to give feedback on proposed improvements to the expenditure management information provided to Parliament. The Working Group reports that members of Parliament support the move to electronic reporting. The offices of all MPs and Senators are currently connected to the Internet. Although Treasury Board Secretariat officials have consulted with the House of Commons and with departments, parliamentary staff believe that better co-ordination of detailed implementation is needed in the future. For example, the format used by the Secretariat to make Performance Reports available on the Internet is not suitable for some systems. A continued partnership between the House of

The new framework draws more attention to the performance achieved by programs. Commons and the Treasury Board Secretariat will help to ensure that the Members' needs are met and that information is distributed in a timely and effective manner.

- 5.42 Shorter, more readable documents. Parliamentarians have complained about the excessive amount of information in the Estimates Part III. The proposed framework for reporting to Parliament would address this by providing briefer documents that focus on key strategies for at least the current and next two years.
- We assessed the structure and 5.43 readability of the pilot Estimates Part III and the fall Performance Reports and compared our assessments with those contained in Treasury Board Secretariat evaluations of the documents. In most cases, our Office and the Secretariat found that the documents were shorter and more readable and used better communications techniques than previous Estimates Part III. Parliamentarians consulted during the Secretariat's evaluations of the pilot Estimates Part III and the fall Performance Reports found the separation of planning and performance information helpful and the documents more focussed and clearly organized than the previous Estimates Part III.
- information. Users of information on departmental performance may sometimes need more detailed information than is provided in shorter documents. Although parliamentarians have complained about excessive information in the Estimates Part III, they and their staffs have also observed that there may not be enough detail on specific topics of interest. Balancing these concerns requires that documents provide links to more detailed information. The pilot Estimates Part III and the fall Performance Reports of some

departments contained some references to sources of more detailed information. However, in many cases there was no consistent and systematic use of such references.

- intends that departments will electronically link Expenditure Management System documents on the Internet to more detailed sources of information. Consistent with recommendations in our 1992 study of information to Parliament, this would allow for shorter printed documents and lower costs than with printed distribution, while providing easy access to additional information where needed. Electronic linkage is not expected to be completed for two years.
- 5.46 Departments should ensure that their reports contain appropriate references to more detailed sources of information.

## Need for a formal means to ensure that improvements continue

5.47 The current reporting framework has been brought about through administrative changes and motions in the House, and implemented only on a pilot basis. Although these can be successful approaches, neither has the force and permanence of legislation.

## 5.48 Other jurisdictions report some success with accountability legislation.

A number of other jurisdictions with systems of government similar to the Canadian federal government, including Alberta, Western Australia and New Zealand, as well as the U.S. federal government and a number of state governments, have made use of legislation that requires departments and agencies to report on their accomplishments. (Appendix A provides some information on several of these jurisdictions.) These

A number of other jurisdictions have made use of legislation that requires departments and agencies to report on their accomplishments.

planning and reporting regimes, while established through legislation, are similar to that being implemented in the Canadian government.

- 5.49 Some Canadian federal entities have legal reporting requirements. Since 1984 the accountability framework for federal Crown corporations has been contained in Part X of the Financial Administration Act. The Act requires the tabling in Parliament of summaries of corporate plans that set out corporate objectives and expected performance, and annual reports that indicate actual performance against those objectives. Since then, our audits have found improvements in information presented to Parliament on the performance of Crown corporations, although further improvements are still required. Some other organizations have specific legislated reporting requirements. For example, enabling legislation for the Atlantic Canada Opportunities Agency requires it to evaluate its activities and "report on the impact [its] activities have had on regional disparity." Since the 1987 legislation, the Agency has reported considerable information on the impact of its two main programs. Yet, as we reported in 1995, improvement still needs to be made in the reported information. We also reported that the Atlantic Canada Opportunities Agency is taking steps to build on what has been learned. We have not audited the Agency's performance information since that time.
- 5.50 Legislating government reporting requirements is not enough on its own to ensure the quality of performance reporting or the appropriate use of the information by legislatures. Several other essential factors are listed by the United States General Accounting Office, which identified five key challenges:

- developing and sustaining commitment by top management;
- building the capacity of agencies to implement the legislative framework and use the resulting performance information;
- creating incentives to implement the framework and to change the focus of management and accountability;
- integrating the framework into daily operations; and
- building a more effective legislative oversight approach.
- 5.51 These are also challenges in Canada. Previous audits have shown that the government needs to build the capacity to measure and assess the performance of its programs and services. The chapter "Matters of Special Importance" in our November 1996 Report suggested that improving the information available on results has rarely been a high priority of the government, noting that in several other jurisdictions that have made advances in reporting performance, political leaders have been the driving force. Finally, it is critical that mechanisms exist that provide for members of Parliament, committees and government to consider and make effective use of performance information.
- **5.52** The progress observed in the initiatives to date needs to be continued if their potential for better reporting and use of information on performance is to be realized.
- 5.53 The government, with Parliament's agreement, should ensure that the improvements in the reporting regime implemented on a pilot basis are made a permanent and formal feature of the Expenditure Management System covering all departments and agencies, and should seek parliamentary approval for incorporating these improvements in the business of supply.

The progress observed in the initiatives to date needs to be continued if their potential is to be realized.

## Overviews of departmental functions, structures and main activities are better than in the past.

## Progress in Describing the Department's Business

5.54 We expected the performance plans and reports to provide an overview of what departments are trying to accomplish under what circumstances, and the relationship of individual programs to broader organizational goals and commitments to the public. This information would allow the reader to interpret the program performance that is reported, and it is needed to help manage programs and make decisions about the allocation of resources.

## In many cases, descriptions of departments have improved

- 5.55 Treasury Board Secretariat evaluations of the pilot Estimates Part III and fall Performance Reports observed that, in most cases, members of Parliament and their staffs found the overviews of departmental functions, structures and main activities better than in the past.
- 5.56 Improved descriptions of mandate and mission. We found that most departments provided clear descriptions of mandate and mission. The best of the mission statements were related to departmental business lines and contained a clear vision of an ideal outcome toward which the department was striving.
- 5.57 Limited improvement in breadth of stewardship information. We noted in our 1992 study on departmental reporting that the existing Estimates documents focussed on annual spending and consequently did not often report on the other instruments departments use to meet the objectives of the programs they deliver in other words, global stewardship. Regulations, loan guarantees and tax expenditures are some common

examples of these other instruments. We recommended that the government report on the broader stewardship responsibilities and not just on annual spending. In 1994, we expanded on this concept to include the need for a lead department for overall reporting of activities that are delivered by more than one department. We, as well as parliamentary staff, expect that departments would at least refer to other government activities that bear on the outcomes they are trying to achieve. For example, Indian and Northern Affairs Canada provided in its fall Performance Report some financial information on other federal departments dealing with First Nations. We note that Treasury Board Secretariat guidelines point to the need to include material on global stewardship.

- 5.58 However, Performance Reports showed no clear overall improvement in the provision of such information on global stewardship. The references to non-spending instruments, when made, are generally included as supplementary financial information and are not incorporated into the general discussion of the department's context, business lines and strategies. We recognize that some of the information needed to report on global stewardship is beyond a department's direct responsibility — for example, many tax expenditures. However, where this is the case, we would expect, as a minimum, a short discussion of the extent of the use of such instruments and their impact on the outcomes the department is seeking.
- 5.59 Departments should include in their performance reporting reference to related activities elsewhere in government, as well as a discussion of all the key instruments that they use to achieve their objectives, including those

instruments that are not reflected in estimates of spending for the coming year.

## Progress in Orientation of Results Expectations, but Need for Greater Clarity and Concreteness

5.60 We expected performance plans to provide an understanding of what the department intends to achieve, by when, and at what cost. We looked for a focus on major intended results of key programs, especially on outcomes that represent the value received by program clients and other Canadians from government activities. This information would assist members of Parliament in their scrutiny of future departmental spending and is needed by managers to control their programs. It is essential for reporting performance.

#### **Expectations focus more on outcomes**

5.61 Good progress in establishing outcome-oriented expectations. We compared performance expectations set out in the spring in the Estimates Part III and the Business Plans of 11 departments with those subsequently set out in the fall in departmental Performance Reports and in Annex B of the Annual Report to Parliament by the President of Treasury Board, "Getting Government Right:

Improving Results Measurement and Accountability". In the majority of the cases, we found the focus on outcomes was greater in the fall than in the spring. Overall, of the more than 600 expectations set out in Annex B of the President's Report in the fall, more than half were for outcomes. We consider this to be good progress toward a focus on outcomes.

## **Expectations need to be clearer and more concrete**

5.62 Statements of expectations need to indicate clearly what would have to occur for a program to be judged successful, given the department's mission and the program's objectives and activities. They need to be expressed concretely in terms that permit measurement. The measurement can involve numeric estimations of magnitude or "softer" forms of measurement, such as the solicitation of users' views. However, if the expectations are not clear and concrete, they are not useful for assessing how well a program is doing.

5.63 Few statements of clear and concrete expectations. Our assessment of the performance expectations stated in the President's Report and fall Performance Reports found some that were specific enough to give a clear picture of desired results (Exhibit 5.6 gives a few examples).

Overall, expectations show good progress toward a focus on outcomes.

Agriculture and Agri-Food Canada made a commitment to:

"high compliance rates for federally inspected products and federally registered establishments."

**Source:** Getting Government Right: Improving Results Measurement and Accountability. Annual Report to Parliament by the President of the Treasury Board, 1996, page 16

Canadian Heritage commits itself to:

"new national parks and historic sites and related protected areas".

**Source:** Getting Government Right: Improving Results Measurement and Accountability. Annual Report to Parliament by the President of the Treasury Board, 1996, page 18

Exhibit 5.6

Examples of Clear but Not Concrete Performance Expectations

- While they are clear, however, 5.64 these expectations are not concrete: one does not know when things are to occur or exactly what level of performance is needed to fulfill the commitment. A better approach to establishing clear expectations is to set specific targets, as illustrated by the Atlantic Canada Opportunities Agency and Revenue Canada (see Exhibit 5.7). The Atlantic Canada Opportunities Agency, in particular, stood out as having set a large number of targeted outcomes, and while it did not do so in all cases, in many instances it indicated its contribution to changes in the outcomes.
- established, expectations need at least to set out the expected direction of improvement in performance, as demonstrated in Exhibit 5.8. About one fifth of the expectations reported in Annex B of the President's Report did so. However, indicating the direction of improvement does not tell the degree of change that would have to occur, and by when, for the performance to be judged successful.
- **5.66** We compared the clarity and concreteness of expectations set out in the

- fall with those in the spring, for 11 departments. We found some improvement in clarity, but little improvement in concreteness.
- Overall, we found that the nature 5.67 of performance expectations varied considerably. Some were general statements of goals to be achieved, some were descriptions of the activities that programs were going to carry out, others were lists of planned performance indicators, and still others were actual targets against which performance could be assessed. This was especially true of the results commitments set out in Annex B to the President's Report. The wide range of the commitments stated in the Report makes it difficult to compare departments and suggests that there was a need for clearer guidance on what these statements should have been.
- 5.68 Clear and concrete statements of expected results would allow actual performance to be assessed. Establishing expectations that are reasonable and measurable and that clearly indicate what results can be expected of a program can be a challenge. Any given department may be successful at meeting this challenge for some areas of activity but

#### Exhibit 5.7

Examples of Clear and Concrete Performance Expectations

The Atlantic Canada Opportunities Agency, reporting on its efforts to create jobs and generate income in Atlantic Canada, set as targets:

achieving "an 'intent to start business within 2 years' index of 17% by 1998" and

"in partnership with rural communities of the Atlantic region, creating and maintaining 3,600 jobs over three years through lending and counseling activities of the Community Business Development Corporations (CBDCs)."

**Source:** Atlantic Canada Opportunities Agency Performance Report, for the period ending March 31, 1996, pages 27–28

#### Revenue Canada undertook to:

"reduce Income Tax accounts receivable levels to 4% of gross Income Tax revenues by March 1997".

Source: Revenue Canada Performance Report, for the period ending March 31, 1996, page 8

not for other areas. Overall, with a few notable exceptions, the performance expectations set out in the fall did not include targets and many were not specific. Many were too ambiguous to allow us to determine the anticipated result.

- examples of imprecise performance expectations. These examples are intended to be illustrative and should not be taken as an indication of the overall progress of these departments toward setting clear expectations. Nor should they be taken as an indication that these departments have made more or less progress, overall, than others toward setting clear expectations.
- 5.70 In these examples, only a very general expectation is stated. It is difficult for readers to understand in advance how much of exactly what is expected to occur. unless additional detail is provided. For example, although Statistics Canada has taken an important step in identifying a final outcome that may result from its statistics, the "redesign of health care policies and programs" could be satisfied by quite minor changes in a single aspect of a health service being delivered, or could require substantive changes to health care in Canada, depending upon the perspective of the reader. In its Performance Report, Statistics Canada

discusses processes in place to monitor the utility and relevance of its products, and it may be able in the future to provide more specific information about accomplishments in this area. However, the kind of general expectations shown in Exhibit 5.9 inherently create a potential for disagreement about whether or not they have been met.

- 5.71 Performance indicators often not clearly explained. A performance indicator is the kind of information actually used to assess a specific aspect of performance. In some instances, Performance Reports clearly identified and explained the kind of information that would be used. For example, Exhibit 5.10 shows how the RCMP explained the meaning and pertinence of the "clearance rate".
- shere it was not evident what the performance indicator was measuring or why it was being reported. Revenue Canada, for example, in discussing the performance of its Customs Border and Trade Administration Services, presents several indicators, including "Compliance Rate", expressed as a percentage, under the heading "Travellers". Although the compliance rate may be a good outcome-oriented indicator, the Performance Report provides no explanation of what the rate includes. The

Overall, with a few notable exceptions, the performance expectations did not include targets and many were not specific.

Agriculture and Agri-Food Canada expects that its Inspection and Regulation activities will result in an:

"increased number of countries/markets accepting Canadian agri-food products".

**Source:** Getting Government Right: Improving Results Measurement and Accountability. Annual Report to Parliament by the President of the Treasury Board, 1996, page 16

Royal Canadian Mounted Police expects:

upward trends in clearance rates of Criminal Code offences.

**Source:** Royal Canadian Mounted Police Performance Report, for the period ending March 31, 1996, page 9

Exhibit 5.8

Examples of Expectations
That Indicate the Direction
of Improvement

The best examples of reported accomplishments met many of our expectations for reporting performance, but not all of them.

other two indicators are not defined either. However, the 1996–1997 Estimates Part III for Revenue Canada did provide brief definitions of these indicators. As another example, many departments refer to "client satisfaction" without explaining satisfaction with what, and how it will be determined.

5.73 In some cases, where departments did not report clear and concrete indicators of performance, they identified indicators they plan to use or areas for which they are developing indicators. This is a good practice. For example, Environment Canada announced that it was developing measures of its impact on the consideration of sustainability in energy decisions and on environmental stress caused by transportation. Statistics Canada proposes to develop an indicator to measure the average burden that responding to its surveys places on individual Canadians. It currently reports the average "response burden" on all businesses.

5.74 Departments should establish clear and concrete statements of the performance expected from their lines of business. These should be included in their Business Plans, Reports on Plans and Priorities, and Performance Reports.

#### Some Progress in Reporting Accomplishments, but Still Cannot Judge Success of Programs

## Some performance reporting meets many of our criteria

5.75 We expected to see progress in the reporting of accomplishments in relation to expectations. At its best, performance information provides a credible account of how well a department has done. This account needs to focus on outcomes related to key expectations. It ought to describe what the department is trying to achieve and what it contributes to that end, given the influence of other actors and outside factors. We also would

Exhibit 5.9

Examples of Imprecise Expectations

Statistics Canada commits itself to relevance of statistics as demonstrated by:

"their use in the redesign of health care policies and programs".

Source: Statistics Canada Performance Report, for the period ending March 31, 1996, page 8

Royal Canadian Mounted Police commits to provide Canadians with protection against organized crime by:

"successful partnerships with other agencies engaged in combatting organized crime".

**Source:** Royal Canadian Mounted Police Performance Report, for the period ending March 31, 1996, page 9

Canadian Heritage commits to promoting:

"opportunities to enjoy Canada's heritage areas".\*

**Source:** Getting Government Right: Improving Results Measurement and Accountability. Annual Report to Parliament by the President of the Treasury Board, 1996, page 18

\* Department officials state that their first Performance Report will provide information that will clarify this expectation. The Department was not one of the 16 that prepared pilot Performance Reports in the fall of 1996.

expect the account to show that the department has accepted responsibility for results by taking action to address weaknesses in performance. Finally, it ought to be made credible by indicating the extent to which the reader can rely on the information presented. Appendix B outlines our expectations in more detail.

- 5.76 We examined the reporting of accomplishments in the fall Performance Reports. The best examples provided many of the key elements for reporting performance, but not all of them.
- 5.77 For example, Transport Canada's reporting on its aviation safety activities did not provide concrete performance expectations, nor did it comment on the reliability and validity of the performance indicators used. However, it did provide the general objectives of the Department's aviation activities, a clearly explained outcome-oriented indicator (accident rates), a limited description of the activities the Department undertakes to influence the outcome and a discussion of the limitations on its ability to link its activities to the safety of the aviation system (Exhibit 5.11).

## Need more progress in reporting key accomplishments

- 5.78 Reporting of performance accomplishments needs to be selective to be usable. We expected that the fall Performance Reports would focus on the key intended results, especially outcomes, and key or significant programs or program elements. We also expected some reporting against previously stated expectations.
- the reporting of outcomes in the fall Performance Reports with reporting in the spring 1996–97 Estimates Part III. We found some improved reporting of outcomes in the majority of these 11 departments between the spring and the fall.
- 5.80 Nevertheless, our examination of the 16 fall Performance Reports found that much progress was still needed in the reporting of outcomes. Although departments reported some intermediate and few ultimate outcomes, overall there were many instances where outcomes were not identified. However, expectations established in the past tended to focus on outputs rather than intermediate or ultimate outcomes. We

#### **RCMP**

"Historically, the effectiveness of a police organization has been evaluated in terms of its ability to dispose of reported offences. This measurement is expressed as a clearance rate which represents the ratio of the number of offences cleared to the number of actual offences. 'Clearance rates' can be used to demonstrate how effectively the RCMP deals with the incidence of violent crime cases within its jurisdictions... Clearance rates include those cases in which an 'actual' offence has been committed, where the offender is known, and sufficient evidence has been uncovered to support the laying of a charge."

**Source:** Royal Canadian Mounted Police Performance Report, for the period ending March 31, 1996, page 21

Exhibit 5.10

Example of Clearly Defined Performance Indicator observed a greater emphasis on outcomes in the performance commitments reported in the President's Report of fall 1996. This may lead to greater reporting of intermediate and ultimate outcomes in the future.

**5.81** Even when outcomes were reported, the general lack of clear and concrete expectations made it impossible to judge how well most programs were doing.

#### Exhibit 5.11

#### **Example of Accounting for Performance: Transport Canada – Aviation**

#### Objective:

"To ensure a safe, national, civil air transportation system, to attend to the development and operation of the national civil air navigation system for the efficient and safe movement of aircraft and to contribute to the safety and efficiency of Canadian aircraft operating in international and foreign airspace."

#### Related activities:

"Transport Canada regulations are developed based on identified risk factors to aviation safety. In addition, inspections are performed to ensure industry compliance with the regulations on the basic premise that a higher compliance rate will result in a safer system. Transport Canada inspections are directed at areas of greater risk."

#### **Outputs:**

The Performance Report provides a table showing trends in the numbers of inspections performed.

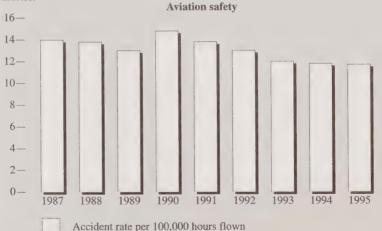
#### Outcome:

"The number of accidents per 100,000 hours flown involving Canadian registered aircraft are generally stable and have declined slightly over the past several years showing that risk in aviation is relatively stable."

#### The Department's contribution:

"Transport Canada is just beginning to develop systems to attempt to better establish the link between the department's legislative and inspection work and the safety of the aviation system. Because of numerous contributing factors, this is not an easy task and will take several years. In addition, Transport Canada is trying to develop systems to determine where it stands internationally. The system safety sub-activity continues to work on developing statistically sound ways to compare the aviation safety records of different countries."

#### **Indicator of performance:**



Source: Transportation Safety Board of Canada

Source: Transport Canada Performance Report, for the period ending March 31, 1996, page 26

5.82 Emphasis on activities and outputs. In interviews conducted by the Treasury Board Secretariat, officials in most departments said that although they are committed to better measurement of results, actual reporting is still oriented toward activities and outputs. Of the departments that said they are moving toward reporting results, all but one acknowledged that their reporting focusses on outputs and that much work remains to be done to move toward reporting outcomes. When we examined the fall Performance Reports, we found that the emphasis was on describing activities undertaken and their outputs. Although some description of activities and outputs is essential to a credible account of performance, the picture is not complete if outcomes are not addressed. In the future, we will report on the obstacles departments encounter in moving toward increased measurement and reporting of outcomes.

#### 5.83 Reporting is often on details.

Some staff responsible for departmental planning and reporting have said that strategic reporting — that is, reporting that focusses on key activities and results - is difficult because all managers want their own programs and activities included. But if reporting is to be strategic and focussed, it must be selective and not cover all aspects of a department in detail. For some departments, performance reporting was not always strategic, focussing on detailed lists of activities undertaken within business lines or on details of administrative and management matters. This reduces the readability and increases the length of reports. Decreasing the discussion of these details would allow departments to address elements of performance reporting that need more attention.

5.84 Departmental performance reports should be more strategic, providing a better account of the key aspects of performance.

## The department's contribution not frequently made clear

5.85 The vast majority of departments did not show how their reported achievements related to their activities. Nor did they clearly describe or discuss their contribution to outcomes in comparison with the contributions of other parties. Although a few departments provided information that gave some understanding of their own contribution to their intended outcomes, none did this consistently well.

5.86 We realize that determining the contribution made to an outcome can be a challenging task. Nevertheless, reporting on the performance of key outcomes ought to recognize the other factors that may be influencing an outcome, describe how the program's activities are intended to influence the outcome sought and highlight any available evidence supporting the contention that the program is having an impact. This need not be a lengthy text; its purpose would be to explain to the reader why the program is thought to make a difference. Where little is known about the extent of the contribution, this ought to be acknowledged. Performance in controversial areas might, at some point, need more formal program evaluation studies to assess the program's influence.

that cannot be fully controlled. In our discussions with program managers, they sometimes indicated an unwillingness to report on results that they could not fully control. Managers are less likely to have full control over outcomes than over outputs. The Treasury Board Secretariat's

Actual reporting is still oriented toward activities and outputs.

Much progress is still needed in the reporting of outcomes.

More balanced reporting is essential if the information is to be credible.

evaluation of the fall Performance Reports observed that in 10 departments, managers stated that the inability to attribute outcomes directly to departmental efforts was a major factor affecting their reporting of results.

- 5.88 This problem needs to be addressed. Departments ought to be giving a credible account of their performance, discussing with the evidence available the contributions they are making to all key outcomes, even those over which they do not have complete control. Few departments have attempted to do so.
- 5.89 Departments should describe how the activities of their programs contribute to the reported outcomes.

## More attention needed to the fairness and reliability of performance information

- 5.90 To be considered and used, performance information needs to be understandable and credible. Credibility requires information that is understandable, reliable and valid that is, information that is verifiable and measures what it purports to measure.
- **5.91 Balanced reporting enhances credibility.** Some managers may want to avoid criticism by reporting only performance that has met expectations.

Doing so, however, can lead to
Performance Reports that lack credibility
because they appear to be just "good news
stories". Indeed, this was the view
expressed by some of the parliamentarians
interviewed as part of the Treasury Board
Secretariat's evaluation of the
Performance Reports. More balanced
reporting is essential if the information is
to be credible and used outside the
department.

- 5.92 For the most part, the pilot Performance Reports focussed on positive accomplishments, with limited or no attention paid to areas where expected results were not being achieved. Where expectations are not clear (as was common), it is difficult to judge whether programs are accomplishing enough.
- 5.93 Nevertheless, we found several instances where departments did enhance the credibility of their Performance Reports by describing performance that had not met expectations. Exhibit 5.12 shows Environment Canada's description of shortfalls in bringing back threatened species.
- 5.94 Departments can adopt one of two constructive approaches to reporting performance that is lower than expected. They can report actions planned to improve performance or, where

#### Exhibit 5.12

Example of the Reporting of Performance That Does Not Meet Department's Expectations

#### **Environment Canada**

**Expected Result:** "Positive recovery trends for designated threatened or endangered species are achieved."

Statement of Performance: "Generally speaking, Environment Canada has achieved notable results with such migratory species as Porcupine Caribou and duck and geese populations, and it has brought species such as the whooping crane back from the brink of extinction. Nevertheless, an increasing number of species are listed as either endangered or threatened. Despite significant progress in the protection of special spaces, the total area protected remains short of the 12% national goal and there remain many gaps in the national network of protected areas."

Source: Environment Canada Performance Report, for the period ending 31 March, 1996, pages 16 and 18

expectations are no longer feasible and appropriate, indicate changes in those expectations.

- 5.95 Reporting corrective actions that are being taken. Departments can acknowledge areas where performance goals were not met, and indicate what they have learned about the reasons for the performance gap and what corrective action they plan. This demonstrates a balanced approach to performance reporting and proactive management. It is perhaps where there is no evidence of having learned from experience that criticism is most warranted about performance that has not met expectations.
- 5.96 We found a few examples of reporting that both identified problems and discussed what was being done to address them. For example, Transport Canada's Performance Report recognized that the system of public harbours and ports suffers from overcapacity and too much bureaucracy, and it promised that a policy would be implemented to correct the situation. The Atlantic Canada Opportunities Agency reported that it had dropped a loan program after evidence had shown it to be not very effective. Another example was Statistics Canada, which reported that it was restructuring surveys in response to studies of the strengths and weaknesses of its energy, retail, wholesale and manufacturing statistics.
- 5.97 Revising expectations. In some cases, performance may not meet expectations because the expectations are no longer feasible or appropriate in light of current circumstances. In these cases, departments could update their stated expectations and provide the rationale for doing so. We found no instances where departments clearly reported changes in expectations.

- 5.98 Where performance does not meet expectations, departments should report the performance gap, the reasons for it and the changes they are making to close the gap.
- 5.99 Credibility requires accurate information. To be credible, information presented in Performance Reports must be reliable and valid. Furthermore, we expected that reports would indicate the information's reliability and validity where the reader may question it by describing, for example, the method of data collection and verification, the accuracy of the data, their relevance and significance, and related factors also influencing the performance reported. We would also expect any limitations in the reliability of the data to be reported.
- 5.100 Few departments presented information of this type to indicate the extent to which their reporting of performance can be relied upon. For example, the source of outside information needs to be presented, allowing for a determination of its reputation. Environment Canada took this approach by indicating whether the Department itself or a reputable professional journal was the source of information used to report progress in controlling emission of ozone-depleting substances.
- 5.101 Unintentional and relatively minor errors in reporting can nevertheless be damaging to the credibility of a department's Performance Report. We verified the accuracy of reported information in only 18 specific instances, where we expected to find good performance information that could be used as examples in this chapter. This was not a representative sample of either the reports or the information in them. In verifying the information, for the most

part we did not audit the sources of the information in detail.

5.102 We assessed the methodology used to develop the reported information and assessed the consistency of the information with that contained in the original sources. In almost half of these instances we found problems, including errors in reporting or calculating numbers and inadequately qualified reporting. The errors are mostly minor and did not result in misleading statements. However, they do point to the need for better procedures to check the performance information being reported.

5.103 Departments should provide, where appropriate, an indication of the strengths and weaknesses of reported information and their implications for the reported performance. They should develop and implement procedures to ensure credibility and accuracy of the information reported.

## Little information on interdepartmental and horizontal issues

In her Fourth Annual Report to the Prime Minister on the Public Service of Canada, the Clerk of the Privy Council and Secretary to the Cabinet observes that horizontal policy issues — ones that cut across a number of departments — are growing in number. The Report also notes that tackling these issues requires an expanded knowledge base and increased interorganizational collaboration. We have commented in the past on weaknesses in the availability of information on the results of interdepartmental and horizontal activities. There is still a need for a mechanism to ensure that requirements for information on interdepartmental and horizontal performance are identified and addressed and that the performance is reported. The reports that make up the information base of the Expenditure

Management System are mostly provided by individual departments and therefore do not contain information on interdepartmental and cross-government aspects of performance.

5.105 In the President's Report to Parliament for 1996, the Treasury Board Secretariat announced that it would be working with Statistics Canada and other departments and agencies to develop a set of core government-wide performance indicators that could be used for future reporting. An interdepartmental committee has been established, and work is under way. Progress is to be reported in this year's President's Report. Establishing a set of government-wide indicators would be one way to report on horizontal and interdepartmental performance. As illustrated in Appendix A, a number of other jurisdictions have moved significantly in this direction and now regularly report against a set of global performance expectations.

## A Vital Role for Treasury Board and Its Secretariat

The Treasury Board Secretariat plays a key role in the Expenditure Management System. We expected that it would ensure a reasonable rate of progress in improving performance reporting within the EMS. Ensuring reasonable progress requires that the Secretariat provide adequate guidance and direction to departments and agencies and follow through with supportive action. It also requires that it foster a climate for credible performance reporting by showing leadership, demonstrating commitment, providing incentives, facilitating the building of expertise and developing a capacity to learn and adapt. It is important that the Secretariat recognize the challenges faced in implementing system-wide changes of this size, and capture and act on the lessons

learned in order to better manage change in the future.

Treasury Board Secretariat has implemented important innovations in a short period of time

5.107 Change has been rapid, making the job difficult. The Treasury Board Secretariat has moved quickly to implement revisions to the Expenditure Management System. Rather than implementing all the revisions at once, it has taken a phased approach that includes trial implementation of innovations in departments at each phase of the budget cycle, building on the experience gained in previous phases. The Secretariat consulted extensively with parliamentarians, this Office, departments and other stakeholders.

5.108 Changes during implementation have been rapid and frequent, and sometimes confusing for departments, who told us they would have liked more information earlier on how the components of the EMS fit together. Secretariat analysts also found the changes confusing. The initiatives were being implemented at a time of considerable internal change in the Secretariat.

5.109 Steps have been taken to provide guidance and direction. In order to ensure that expenditure management documents meet the needs of Parliament and government, expectations and standards for these documents have to be communicated to the departments that prepare them. The Treasury Board Secretariat has issued guidelines for EMS documents, conducted extensive consultations with departments and provided feedback on draft documents. As part of this audit, we examined the EMS guidelines. We found that they encourage departments to establish and report against expectations for performance. They also

encourage a strategic focus on results and outcomes. The guidelines for the fall Performance Reports included principles for performance reporting prepared by this Office in consultation with the Secretariat.

**5.110** To develop the performance expectations in Annex B to the President's Report, Secretariat analysts reviewed departmental performance and planning documents and identified an initial set of expectations. These were then presented in the form of "mock-ups" and were discussed with departments. Most departments were able to further improve their performance expectations based on this guidance. We found this approach to be particularly effective in encouraging a greater focus on outcomes.

5.111 We noted that guidance to departments and agencies on the preparation and presentation of financial information in performance plans and reports was limited to the structure of the tables to be included. We believe that better guidelines would help ensure that financial information is more complete, reliable, clearly and fairly presented, and prepared on a basis consistent with the government's stated accounting policies.

5.112 Consistency in the provision of guidance and direction is important.

When trying to implement considerable change in a short period, it is particularly critical to convey consistent messages. Although the written guidelines are reasonably consistent, departments told us and the Secretariat that they had received inconsistent advice and feedback as they prepared the new reporting documents. Secretariat analysts acknowledged some inconsistencies in the responses they provided to departments. The guidelines were revised several times in response to feedback and as experience was gained. Requirements for the content of EMS documents were added or changed up to a

The Treasury Board
Secretariat has moved
rapidly to implement
revisions to the
Expenditure
Management System.

few weeks before deadlines. While this might have allowed for the most up-to-date guidance to be provided, departments sometimes perceived the changes to be confusing.

5.113 The Secretariat advises us that it has taken measures to resolve this problem by co-ordinating all advice on performance reporting through teams previously established to co-ordinate the development of Business Plans. However, experience in the development of the 1996 Business Plans has shown that the approaches taken by those teams vary considerably. It remains to be seen whether this approach will address the concerns of departmental officials.

5.114 The Treasury Board Secretariat should ensure the consistency of advice and feedback provided to departments on performance reporting.

## 5.115 Training and development initiatives have been implemented.

Moving to a more results-based approach to management is a major change for most programs. There is a considerable need for education and training in how to develop useful measures of performance and how to use them in managing and reporting. This is an important departmental responsibility, but the Treasury Board Secretariat has a role to play as well. The Secretariat undertook a number of initiatives to provide additional guidance and to develop the required expertise in departments. These included sponsoring many workshops over the past two years at the Canadian Center for Management Development; holding workshops with groups of departments; briefing departments and their executives; and holding or co-sponsoring sessions to review experience with such innovations as departmental Outlook documents, pilot Estimates Part III and Business Plans. The sessions included departments and the users of performance information, including this Office. Some included members of Parliament. In general, we found that the training and review sessions encouraged a focus on results, including outcomes.

Measures have been taken to 5.116 learn and adapt. On behalf of the Parliamentary Working Group, the Secretariat has conducted evaluations of pilot Estimates Part III and fall Performance Reports. We agreed with the evaluation conclusions except for the assertion, reported in the evaluation of the pilot Estimates Part III, that performance expectations were set out well in the documents. Treasury Board Secretariat management has agreed with the recommendations flowing from the evaluations of the pilot Estimates Part III and the fall Performance Reports. Appendix C summarizes the key recommendations of these evaluations; we agree with those recommendations.

We interviewed Secretariat officials and reviewed available documentation to assess the progress made in implementing the recommendations and related commitments to action. Some of the recommendations address matters that fall outside the time frame of this audit; in almost all remaining areas, the Secretariat has made progress. We found that Secretariat officials have used the results of the evaluations to modify their approaches, develop training and guidance, make recommendations to management and support the development of motions for consideration by the House of Commons.

**5.118** The Secretariat has also evaluated both the 1995 and 1996 business planning processes. We did not examine TBS implementation of recommendations

from these evaluations, many of which fall outside the scope of this audit.

Better identification of good practices is needed. In the past, departments have expressed concern that the rigidity of requirements for reporting in the Expenditure Management System has not allowed them to communicate clearly the department's business and context. The current approach adopted by the Treasury Board Secretariat responds to this concern by allowing considerable flexibility in the format and content of expenditure management documents. Instruction is in the form of general guidelines rather than directives, and requirements are few. Some departments, however, indicated that they need more help in preparing their documents than the guidelines provide.

5.120 We believe that identifying and communicating examples of good practice — not only for reporting performance but also for identifying expectations, measuring results and using the results to improve programs — is an excellent way to provide guidance. The evaluation recommendations reflect this principle. At the federal level in the United States, documenting cases of good practice is an important part of implementing the legislated performance reporting regime. Our audit found that there are instances of good practice that can be identified and communicated.

5.121 Treasury Board Secretariat has encouraged departments to share good practices as a means to develop the needed expertise. The Secretariat played a more active role in the development of Annex B to the President's Report by providing individual mock-ups, which identified expectations that analysts thought suitable. The most recent Canadian Centre for Management Development workshop on reporting of

results also adopts a proactive approach to communicating good practices.

Nonetheless, considerable improvement in performance reporting is still required. We believe that more documentation and communication of good practices is needed to help departments produce better information on what they have accomplished.

5.122 The Treasury Board Secretariat should strengthen its effort to document and communicate good practices by departments in articulating performance expectations, measuring results, and using the information to improve programs and report accomplishments.

Departments need to see that the Treasury Board and its Secretariat use performance information

Measuring and reporting on results will take hold in government only if the information is found to be useful to program managers and seen to be useful to senior government decision makers. Use by others outside the departments can play a key role in encouraging a focus on results. When the Treasury Board and its Secretariat use or demand information on results, they demonstrate commitment and leadership and provide key incentives to continue improving the reporting of results. Departmental officials have told us that if they do not see performance information used in making decisions, it will be hard to justify efforts to improve reporting. At the time of this audit, it was too early to assess central agencies' use of the information in the fall Performance Reports.

**5.124** The Treasury Board Secretariat's evaluation of the business planning process highlighted other problems. Secretariat analysts recognized that although Business Plans were used to provide a general context for resource and

More documentation and communication of good practices is needed.

Visible interest in, and use of, performance information by parliamentarians can have benefits.

program design decisions, they had not used information in Business Plans as they had intended, especially to comment on interdepartmental and horizontal issues. Review of Business Plans by the Treasury Board came too late for some departments to make adjustments for the current year. Review was still ongoing for some departments in early 1997. Also, some departments did not get the feedback they desired from the Treasury Board on specific issues.

5.125 The Treasury Board Secretariat should ensure that individual departments are aware of Treasury Board and Secretariat use of performance information provided in the departments' Business Plans and Performance Reports.

## A Leadership Role for Standing Committees

**5.126** Parliamentary standing committees could play a leadership role in encouraging departments to manage for results, by asking for information on results and by visibly using it in their deliberations.

## Standing committee use of performance information is important

5.127 Visible interest in, and use of, performance information by parliamentarians, especially standing committees, can have two benefits: first, if departments believe that committees want the information, they will likely devote more effort to providing better information; and second, parliamentarians will be better served by that information.

5.128 Increased, but still limited, use by some standing committees of the performance information provided by departments. Committee hearings were held in 1995 and 1996 on departmental

Outlook documents, Estimates Part III, the pilot Estimates Part III and five of the fall Performance Reports. The Performance Reports were tabled on 31 October 1996, giving limited time for review before the House adjourned in December.

5.129 Departments have said that standing committees pay only limited attention to dealing with the accomplishments of programs. Our review of the documents from these hearings showed that there was a small increase in references to and discussion of the performance information provided by departments. However, discussion of performance information provided to standing committees was still minimal.

## Treasury Board Secretariat has actively involved Parliament

5.130 Early in the initiative, the Secretariat turned its attention to developing an understanding of the needs of parliamentarians. A Parliamentary Working Group met several times with Treasury Board Secretariat officials. Consultations also took place with other parliamentarians, including standing committee chairs and the chair of the Subcommittee on the Business of Supply of the Standing Committee on Procedure and House Affairs. The officials supported the process leading to the motions passed in the House in December 1995 and June 1996, endorsing the key stages of the initiative. As the project advanced, Secretariat staff explained the intent of the changes through briefings of standing committees and appearances as witnesses at committee hearings. In addition, information sessions and focus groups were conducted with parliamentary staff, including the research staff of the Library of Parliament and procedural clerks of the House of Commons.

The Treasury Board Secretariat has actively involved Parliament.

## Parliamentary use of performance information could be facilitated

**5.131** As part of our audit work, we obtained the views and thoughts of a number of standing committee chairs about government efforts to improve information for Parliament and about the role their committees could play in fostering better management in government. They encouraged us to suggest ways that standing committees could be more effective in considering departmental performance information.

5.132 Current role for standing committees and MPs. The need to improve the parliamentary process for reviewing government expenditures has been widely recognized for at least 30 years, including in successive parliamentary committee reports. Members of Parliament have indicated three sources of frustration: the available information does not provide a reasonable perspective on performance; the volume of government activity makes in-depth review impractical; and, as noted in the 1993 Report of the Liaison Committee on Committee Effectiveness, MPs in standing committees see "little point in committing precious time to reviewing estimates that will not be modified as long as the government has a majority."

5.133 Recently, action was taken to re-examine the parliamentary process for expenditure scrutiny. In June 1995 the Standing Committee on Procedure and House Affairs established a Subcommittee on the Business of Supply. This subcommittee was given a mandate to undertake a comprehensive review of the business of supply, with particular attention to the reform of the Estimates and to the related processes and mechanisms of the House and its committees. The subcommittee has issued several reports, supporting and providing

guidance to the pilot projects associated with the Improved Reporting to Parliament Project. The subcommittee expects to issue its final report in early 1997.

5.134 Mechanisms for reporting to the House are important. Reforms in the mid-1980s allowed standing committees to report on all matters relating to the mandate, management and operation of the departments assigned to them, including program and policy objectives, expenditure plans and the departments' effectiveness in meeting their objectives. Although this broad mandate applies to reports on priorities and performance, more specific measures can help, at times, to clarify the mandate. For example, in February 1994, amendments to the House Standing Orders facilitated committee review and reporting in the spring on expenditure priorities and plans for future fiscal years. That committees have not yet done so may be linked to parliamentarians' lack of familiarity with the new documents and to limits on the time available to committees for review.

Performance Reports would provide another opportunity for committees to question and challenge spending plans and priorities of departments, based on what was accomplished in the preceding fiscal years. The 1994 rule changes clarified the power of committees to report on plans and priorities in the supply process (now to be supported by the spring Reports on Plans and Priorities). New arrangements may be needed to facilitate committee reporting to the House on fall Performance Reports.

**5.136** Performance plans and reports, unlike the now discontinued Outlook documents, are Estimates documents. Their formal tabling in Parliament and referral to committees will assist

Review and reporting on the fall
Performance Reports would provide another opportunity for committees to question and challenge spending plans and priorities of departments.

parliamentarians in two ways. First, members and committees will be made aware of these documents at an opportune time; and second, they will receive them in accordance with established parliamentary procedures. The fall 1996 Performance Reports were tabled with the President of the Treasury Board's Annual Report. This practice is expected to continue.

**Timing of reports to Parliament** is also important. Parliamentarians would have liked to receive Outlook documents (now part of the spring Reports on Plans and Priorities) and the Performance Reports earlier, to allow more time for review. In order to influence early budget discussions and departmental implementation of previous budget decisions, the spring Reports on Plans and Priorities need to be provided in time for review and reporting before the summer recess. For committee review to be part of the budget consultation process, Performance Reports would have to be provided as soon as possible after the fall session of Parliament begins. Exhibit 5.3 illustrates the timing of EMS documents and their potential review by committees.

5.138 Other jurisdictions are also trying to increase the involvement of legislators in reviewing performance **information.** We observed earlier that many jurisdictions have made progress in implementing initiatives to provide better performance information to their legislatures. They are also trying to find ways to make the review of this information more meaningful to legislators. New Zealand, the Australian states of Western Australia and New South Wales and the province of Alberta are four that have recognized the need to develop the capacity for legislators to use the

information more effectively (see Exhibit 5.13).

#### Standing committees could ask a number of questions about departmental Performance Reports

- **5.139** Members of Parliament can expect that, over time, performance plans and reports will:
- explain the context and business of the department and its programs;
- discuss the strategies being used to meet objectives;
- explain what exactly is to be accomplished in the next year or two, and at what cost; and
- describe in a credible manner what has been accomplished in relation to previously stated expectations and at what cost, and what has been learned.
- 5.140 To focus attention on performance and results on what
  Canadians are getting for their tax dollars committees could ask the following types of questions:

Where reports provide information only on departmental activities (numbers of inspections, reports produced, etc.):

• What are the results of those activities? Why aren't those results reported?

Where performance expectations are vague or unclear:

• How will we know if and when those expected results actually occur?

Where accomplishments have been reported with no reference to a standard or some expected level of performance:

• Is the reported level of performance good enough? How can we tell? How much is left to accomplish and how long will it take? What is the department doing to improve its performance?

Where it is not clear how the program in question has contributed to the reported accomplishments:

 What has been the department's contribution? What other factors are acting that influence or limit the department's efforts? What has the department done to develop a clear understanding of its influence?

Where performance has been reported without some explanation of where the information came from:

#### **New Zealand**

In New Zealand, the Estimates state the government's objectives and, in the case of appropriations for goods and services, prescribe service performance measures and targets, although ministers generally do not report whether those targets have been met. Introduced early in the financial year, the Estimates are subject to a two-month period of examination by parliamentary select committees. Following 1996 rule changes, any MP is allowed to propose a change in the Estimates, which, if not vetoed by the government, must be voted on.

Government departments and other Crown-owned agencies provide Parliament with a report at the beginning of the year that includes a statement of projected service performance; actual performance is reported in their annual reports. The performance of all departments and agencies (including state-owned enterprises) is subject to parliamentary review and debate following the tabling of annual reports.

#### Western Australia

The statutory requirement in the state of Western Australia since 1985 for departmental non-financial performance reporting to Parliament has led to recognition of the need for legislators to use the information more effectively. The Standing Committee on Public Accounts and Expenditure Review of the Legislative Assembly (the lower house of Parliament) examined the reporting of performance indicators in 1991 and suggested adoption of a systematic approach to in-depth review by parliamentary committees. A royal commission argued in 1992 for a strengthened and broader use of the parliamentary committee system. Over the past four years, the Standing Committee on Estimates and Financial Operations of the Legislative Council (the upper house, in theory the house of review) has carried out an annual review of the Estimates, involving a comparison of objectives in Estimates documents with performance information in annual reports; the Committee has sought greater consistency between the two. The same Committee recently examined and reported on the issue of reporting performance indicators, and it recommended improvements in the process.

#### **New South Wales (Australia)**

The New South Wales Legislative Assembly established a Public Bodies Review Committee in 1995, with a mandate to examine the effectiveness of performance reporting in annual reports of all public bodies. State legislation explicitly requires that performance be reported, and makes every public sector organization accountable for its performance. In its first year, the Committee formulated guidelines on what it intends to examine, and has developed a set of criteria for performance reporting. In future years, the Committee plans to examine a number of the annual reports issued each year, seeking to ensure that all agencies are moving toward best practice.

#### Alberta

In Alberta, a regular process for the review of departmental performance reports has been established. Legislative assembly committees on supply and public accounts examine, respectively, ministry business plans, which are tabled with the Estimates, and annual reports. In addition, five subject-area standing policy committees of Cabinet review business plans and annual reports in public sessions. These committees include backbench government members of the Legislative Assembly as well as Cabinet ministers. The initial sessions on annual reports in the fall of 1996 reviewed seven ministries, and developed a "report card" on the quality of the reports and on the extent to which performance expectations were being met.

Exhibit 5.13

Legislators in Other Jurisdictions Are Using Performance Information Committees could also provide feedback to departments by commenting on the content of the Performance Reports.

- How reliable is the information? Why should we believe the information presented?
- **5.141** Committees could also provide feedback to departments by commenting on the content of the Performance Reports, including the suitability of the measures reported, and on their usefulness.
- 5.142 Standing committees may wish to consider strengthening their review, challenge and use of performance plans and reports from departments. Government should work with Parliament to develop means for enhanced parliamentary use of departmental performance information as input to the budget consultations.

#### Conclusion

- We found that progress has been made in reporting departmental performance expectations and accomplishments to Parliament and central agencies through the revisions to the Expenditure Management System. These efforts need to continue and be given adequate time to mature. Improved reporting of performance information will take several years of experimenting and learning. The government, with Parliament's agreement, needs to ensure that the improvements made become a permanent and formal feature of the Expenditure Management System, and to seek parliamentary approval for incorporating these improvements in the business of supply.
- **5.144** Nevertheless, progress has been sufficient to allow us to find examples of good practice that, collectively, demonstrate that the key elements of adequate reporting to Parliament can be provided.

- 5.145 Although considerable improvement has been made in the reporting regime and in the clarity of communication, the content of performance expectations and reporting of actual performance still need to be improved. Reports need to focus more on key areas of performance so that the information required can be provided in documents that are short and readable.
- It is important to maintain the 5.146 progress we observed and to make more progress. To accomplish this, leadership by senior departmental management and the Treasury Board Secretariat is required. The Secretariat needs to strengthen the guidance and feedback it provides departments and its documentation and communication of good practices. As the Expenditure Management System continues to evolve, it is important that departments and the Treasury Board Secretariat ensure that the required capacities are present, including the co-ordination needed within these organizations and among organizations.
- 5.147 Progress will be significantly enhanced if departments clearly see use of performance information by the Treasury Board, its Secretariat, and parliamentary standing committees. More visible use by standing committees could be accomplished through stronger review by committees and a link to the budget consultation process.
- Treasury Board Secretariat's comments: In 1995, the President in Chapter 1 of his report to Parliament, Strengthening Government Review, stated the government's commitment to "a management culture that is fact-based, results-oriented, open and accountable." Reporting on performance is a key element in the strategy to make these fundamental changes. It is also a key component of the Improved Reporting to Parliament Project. Accordingly, the

government welcomes the Auditor General's support for this initiative.

Our strategy is to focus attention on clear commitments to results, to experiment with pilot reporting, and to involve program delivery and policy managers in measuring performance. The Auditor General's recommendations to departments and to the Treasury Board Secretariat are consistent with current actions and plans. As we move forward to extend fall performance reporting broadly to departments and agencies, we will be considering the Auditor General's recommendations, as well as parliamentary and public response to the

reports. We will be tracking how these reports are used, in particular by parliamentarians.

In addition, the government has established an Independent Panel to advise on modernizing comptrollership in the federal government. This Panel will be looking at all aspects of comptrollership, including performance measurement and reporting.

We welcome the Auditor General's continuing attention to these matters. Updates on our progress will be provided annually in the President's Report to Parliament.



## **About the Audit**

#### **Objectives**

The objectives of our audit were:

- to assess the government's progress in reporting departmental performance expectations and accomplishments to Parliament and central agencies through the Expenditure Management System; and
- to identify examples of good reporting of expectations and accomplishments to Parliament.

#### Scope

The audit focussed on performance information in the Expenditure Management System. We concentrated on performance expectations and actual performance in Performance Reports, Estimates Part III, Business Plans, the In-Year Update and Outlook documents of 16 pilot departments for the period 1995–96 and 1996–97. We also assessed performance expectations set out for 32 federal departments and agencies in the 1996 Annual Report to Parliament by the President of the Treasury Board. In particular, we assessed improvements made in the availability and nature of the information reported. We focussed on information about results, rather than financial performance per se.

We examined the role played by Treasury Board Secretariat in implementing related innovations to the Expenditure Management System, encouraging departments to report the expected and actual results of their activities and obtaining feedback and participation of members of Parliament. We also examined the use of performance information in the hearings of parliamentary standing committees.

Finally, we looked at the experience of other jurisdictions in reporting performance and in using accountability legislation to ensure the implementation and continuation of efforts to improve reporting for results.

#### Criteria

We assessed progress against two criteria. First, departments should report performance information that allows a judgment to be made on how well its programs are doing. More detailed expectations for good performance reporting are presented in Appendix B. We did not expect, at this time, to see all of these expectations reflected in all of the performance information being provided as part of the revised Expenditure Management System.

Second, Treasury Board Secretariat should have procedures in place to ensure a reasonable rate of progress in improving performance reporting within the Expenditure Management System. We expected to see evidence of adequate guidance and direction, leadership, demonstrated commitment, supporting incentives, building of expertise in departments and support for learning and adapting.

#### **Approach**

We examined the relevant documents reporting on performance that form part of the Expenditure Management System. For all hearings on Outlook documents and Main Estimates documents for 1995 and 1996, we reviewed standing committee testimony and reports for references to departmental performance and looked for references to performance information in information requests made by standing committee members to parliamentary research staff.

Where appropriate, we relied on evaluations of the 1996 business planning process, the experience with pilot Estimates Part III and fall Performance Reports conducted by Treasury Board Secretariat staff.

We reviewed the literature on accountability legislation in other jurisdictions and interviewed officials from selected jurisdictions.

We conducted interviews with departmental and Treasury Board Secretariat officials and discussed improved reporting with a number of standing committee chairs. We also interviewed departmental officials and House of Commons staff with respect to the use of performance information by parliamentary standing committees.

We attended selected meetings of Treasury Board staff and departmental officials, participated in training sessions and observed several standing committee hearings.

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#### Appendix A: Experience from Other Jurisdictions

#### Other jurisdictions report accomplishments

#### Other Canadian jurisdictions are reporting performance

Alberta published *Measuring Up: First Annual Report by the Government of Alberta* in June 1995. This report consisted of 22 "core measures" such as educational attainment, life expectancy at birth, family income distribution, taxation load, job creation, crime rate, and air/water quality. The 1996 version of *Measuring Up* compares actual results for the 1995–96 fiscal year with the goals or targets set in the government's business plan. A summary of the government-wide results achieved was also reported in *Building a Strong Foundation – 1995–96*. The Annual Report of the Government of Alberta, published in June 1996. The annual reports of Alberta ministries and agencies for 1995–96 also include information on their performance achievements against targets and goals set in their individual business plans.

In April 1996, the Nova Scotia government published strategic goals in *Government by Design 1996–97: Building on Solid Ground*, the third such annual document. Tabled in the House of Assembly as a supplement to the Estimates, *Government by Design* is supported by and summarizes performance plans and priorities from departmental business plans. The document addresses four priority areas: economic renewal, redesigning government, social responsibility and fiscal stability. Similarly, in August 1996, the provincial government issued a progress report, *Financial Report 1995–1996: Hitting the Targets, Government by Design in Action*. In 1997 this document is expected to report actual performance against defined objectives. In addition, departmental reporting practices are being reviewed, and the intention is that annual reports will report performance on a more detailed level.

The Government of New Brunswick has published *Performance Measurement* on two occasions, as a supplement to the Main Estimates, for fiscal years 1996–97 and 1997–98. For the purposes of the 1997–98 document, departments were asked to identify goals, performance indicators, and targets for the majority of their core businesses. In their 1996–97 annual reports, departments will begin to report results for the indicators identified in *Performance Measurement 1996–97*. Subsequent reporting is intended to follow the same pattern.

Some of the other provinces are also moving to enhance their performance reporting.

#### Jurisdictions abroad are reporting performance

In the United Kingdom, executive agencies established since 1988 under the Next Steps Initiative – which now make up more than 71 percent of Home Civil Service — publish Annual Performance Agreements and Annual Reports, respectively containing information on their expected and actual performance against specific targets. At the local government level, performance against a wide range of established performance indicators for municipal services such as police, fire control, social services, and libraries is published annually in a comparative format by the British Audit Commission, so that performance of local governments can be compared.

In the Australian federal government, program management and budgeting reforms in the mid-1980s led to the inclusion of performance information in Portfolio Budget Statements and in Annual Reports of departments and agencies. The former indicate the effect that budget measures will have on program objectives and outcomes; the latter "provide the information required for Parliament to make a fully informed judgment as to the effectiveness of the agency in meeting its program objectives." Similar reporting practices exist in Australian state governments.

In the United States, several state governments are reporting on the performance of their programs and services against targets. For example, the Oregon government adopted measurable strategic goals in 1989, and published its third edition of *Oregon Benchmarks – Standards for Measuring State-wide Progress and Institutional Performance* in December 1994. Results achieved for state-level benchmarks, reported to the Oregon legislature, involve comparisons with targets, past achievement trends or national averages to assess progress made against state goals.

Texas launched an initiative in 1991 to adopt a unified and comprehensive system of strategic planning and budgeting, whereby performance information is made available to facilitate the biennial appropriation process. Minnesota published *Minnesota Milestones*: A Report Card for the Future in December 1992, outlining 20 broad goals and 79 measures with targets or "milestones" for future achievement. In a separate initiative, mandated by the State Legislature, state agencies issued their first performance report in September 1994 and are expected to report biennially.

The Government Performance and Results Act of 1993 (GPRA) requires U.S. federal departments and agencies to set strategic goals, measure performance, and report on the degree to which goals were met. The agencies are required to submit to the President and to appropriate authorization and appropriations committees of Congress an annual report on program performance for the previous fiscal year. The GPRA requirements are being implemented progressively through pilots over a period of five years, with full-scale implementation beginning in fall 1997.

#### Accountability legislation in other jurisdictions

#### Accountability Legislation in the State of Western Australia

Western Australia enacted requirements for government agencies to report on performance in 1985, under the Financial Administration and Audit Act.

The framework consists of the Act, regulations made pursuant to the Act, and Treasurer's Instructions, which have the force of law. The Act establishes the role of chief executives of departments and agencies as "accountable officers", responsible for preparing and submitting annual reports to the Minister, which he or she then tables in Parliament. These annual reports are to include performance indicators and related information, in addition to financial statements and a report on operations.

The Treasurer's Instructions detail three types of performance indicators, which relate to key variables:

- workload indicators:
- efficiency indicators, which compare resources input against resulting outputs; and
- effectiveness indicators, which measure the extent to which programs achieve objectives.

Agencies are required to report key effectiveness and efficiency (not workload) indicators for each agency program.

The accountable officer is required to certify that the performance indicators are based on proper records and fairly represent the performance of the entity. The legislation requires the Auditor General to express an opinion on these performance indicators.

A royal commission appointed in 1992 found that the Act has "improved materially the information supplied to Parliament by way of annual reports." (1994) 1994

#### Accountability Legislation in the Province of Alberta

Alberta's *Government Accountability Act* of May 1995 formally established requirements for the government and individual ministries to report performance information to the Legislative Assembly and to the public in plans and annual reports.

The Provincial Treasurer is to provide a consolidated business plan, indicating goals, the measures used to assess performance and desired results for "core businesses." For example, in 1996 there were three core businesses: people, prosperity and preservation, with a set of measures for each. Ministries are required to prepare business plans including the same type of information.

The Act also requires the Treasurer and ministers to provide consolidated annual reports comparing actual performance with desired results stated in their business plans. Although these provisions have not yet been proclaimed, pending further evolution of performance measurement reporting, both the consolidated and departmental annual reports are being prepared and tabled in the Legislature as if they were in force.

The legislation does not require an audit of non-financial performance information. However, the government has indicated its belief that performance measures must be audited to be truly useful.

Positive comments have come from several sources. For example, the Alberta Auditor General reported in 1996 that progress with government accountability is satisfactory.

As an advocate of the adoption of a legislative framework for the reporting of results, the Auditor General summarized the benefits of such a framework as follows:

- the legislation will foster and focus debate in the Legislative Assembly to improve accountability;
- an enduring system with a consistent format and a common vocabulary will assist users in understanding accountability information;
- the electorate will have the opportunity to suggest improvements through their representatives; and
- information will be comparable across organizations, and a means of ensuring compliance will be established.

#### Appendix B: Expectations for Good Performance Information

We believe that departments should report information on their performance that allows the reader to judge how well their programs are doing. To that end, we identified five characteristics of good performance reporting, which together allow a department to provide a credible account of performance:

Clear context and strategies. The report should clearly describe the mission and mandate of the organization, the objectives of its programs and services, the major strategies being used to achieve these objectives and the related external context.

There is a need to provide an overview of what the program is trying to accomplish under what operating environment and its relationship with broader organizational goals to allow for interpreting the performance reported. The *major strategies* being used, such as business lines, should be clearly described along with their sub-objectives. This should include information on all the major instruments such as loan guarantees and tax expenditures being used to achieve objectives, as well as both statutory and non-statutory voted expenditures. The related *external context* outlines the major factors, other government activities, risks and other influences outside the program that may affect the extent of progress toward the objectives pursued.

Meaningful performance expectations. The performance information should contain clear and concrete key performance expectations with a focus on outcome-results.

Clear performance expectations allow a reader to understand what result is intended. Concrete performance expectations can be qualitatively or quantitatively measured and hence be credibly reported as to whether or not they have been accomplished. Key expectations reflect the major intended results (usually outcome-oriented) expected from the program in relation to the interests and concerns of the users of the performance report. Key expectations also reflect the major or significant programs and elements thereof.

Performance accomplishments against expectations. The performance information should report key accomplishments in relation to expectations and be attributable to the activities undertaken.

Key accomplishments are those that the reader would expect to see reported in order to be able to judge the extent to which expectations have been met. This includes reporting of performance where expectations have not been met. Reporting of performance accomplishments needs to be selective to be useable.

Key performance accomplishments should be reported in relation to previously stated expectations, be linked to related mission statements and objectives and include the important aspects of the results achieved (outputs, intermediate outcomes, ultimate outcomes) and their costs, and related financial performance.

The performance information should be *attributable*. There should be a discussion and explanation of the extent to which the accomplishments achieved can be attributed to the activities of the program – how the program in question has made a difference.

Capacity to learn and adapt demonstrated. The performance information should provide a measure of the ability of the program to learn from past performance and to adapt to external changes.

A *capacity to learn* refers to the ability of the program to modify its strategies in light of past performance. In particular, where performance has been less than expected, the adjustments that will be made to reflect what has been learned should be reported. A *capacity to adapt* refers to the ability of the program to modify its strategies in light of the external context and in anticipation of future changes and challenges.

Fair and reliable performance information reported. Performance information should be fair, valid, reliable and understandable.

Fair information presents a balanced and timely picture of how well performance has been in relation to expectations, including cases where key expectations have not been met.

Reliable information can be validated. The reliability that can be placed on the performance information should be indicated in the report, by presenting such information as the method of data collection and verification, or whether the data are estimates or actuals.

*Valid* information is an accurate representation of what it purports to measure. It is essential that adequate explanatory and interpretive material is included in the report so that the reader can understand the relevance and importance of the measures provided and the context in which performance has been accomplished or not.

*Understandable* performance information allows the intended reader to see readily and clearly what results were expected and the extent to which they have been achieved.

#### Appendix C: Summaries of Evaluations of the Improved Reporting to Parliament Project

#### **Evaluation of the Six Spring 1996 Pilot Part III Estimates**

Treasury Board Secretariat, in response to a request of the Standing Committee on Procedure and House Affairs, undertook an evaluation of the revised Part III Estimates that six pilot departments tabled in March 1996 as part of the second phase of the Improved Reporting to Parliament Project (IRPP). The purpose of the evaluation was to determine the impact of the new approach.

The evaluation found that Treasury Board Secretariat and the pilot departments were moving in the right direction as they tried to better communicate what departments do and where they are heading. However, the evaluation showed that much remains to be done, particularly in measuring results and reporting on success. The following recommendations were made:

- Departmental teams working on these documents, in consultation with Treasury Board Secretariat, should share the lessons they
  have learned from this experience. Treasury Board Secretariat, in consultation with others, could prepare guidelines based on
  these lessons.
- Planning and performance information should be split into two separate, complementary documents so that departments may better focus on results.
- Treasury Board Secretariat should clearly define appropriate performance information requirements to foster a better understanding of the difference between outputs and outcomes.
- Treasury Board Secretariat should create model reports to give departments an illustration of appropriate content.
- Treasury Board Secretariat should establish a strong, consistent training initiative to help develop a better understanding of key concepts and their application to plans and reports.
- Treasury Board Secretariat should pick champion departmental prototypes, developed by task force teams, to give departments the opportunity for learning and demonstration.
- Treasury Board Secretariat should provide a framework of possible indicators, by type of program, to help departments select
  appropriate indicators for their own programs.

Treasury Board Secretariat management agreed with the findings and the recommendations.

Source: Evaluation Report: Improved Reporting to Parliament Project - A Report of the Parliamentary Working Group (June 1996)

#### **Evaluation of the 16 Fall 1996 Performance Reports**

Treasury Board Secretariat undertook an evaluation of the new Performance Reports prepared by the 16 pilot departments in response to a request from the Standing Committee on Procedure and House Affairs.

The evaluation examined whether the project maintained the broad support needed from stakeholders – parliamentarians (the primary audience), and departments (the suppliers of the information). The evaluation found some exemplary cases in which performance expectations were clear, measurable, targeted, and outcome-oriented. However, generally speaking the pilot Performance Reports did not present information that would fully allow readers to judge how well the departments are doing. Parliamentarians indicated that the objectivity of the performance reporting remains a concern. Overall, the key stakeholders were very supportive of the Performance Reports while recognizing that improvements are possible.

The evaluation made a number of recommendations similar to those in the evaluation of the revised Estimates Part III documents. Additional recommendations were that Treasury Board Secretariat should monitor the quality of departmental plans and Performance Reports, and that departments should include in their Performance Reports for 1997 how the views of the standing committee on their current report have been accommodated. Treasury Board Secretariat agreed with the recommendations.

Source: Evaluation Report: Improved Reporting to Parliament Project – Performance Reports; A Report of the Parliamentary Working Group (December 1996)



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# Report of the Auditor General of Canada to the House of Commons

Chapter 6
Contracting Performance

Chapter 7
Acquisition Cards



Report of the Auditor General of Canada to the House of Commons

Chapter 6
Contracting Performance

Chapter 7
Acquisition Cards

This April 1997 Report comprises 10 chapters and a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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# Chapter 6

**Contracting Performance** 

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

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### **Contracting Performance**

Assistant Auditor General: Shahid Minto Responsible Auditor: Michael Weir

### **Main Points**

- 6.1 In 1995–96 the government paid outside suppliers about \$14.3 billion (goods, services and construction), which included 6 million separate purchases affecting thousands of responsibility centre managers and suppliers, through 93 departments and agencies and 2,000 procurement experts.
- 6.2 Canada's treaty partners, businesses, appointed and elected officials and its citizens all define "good contracting performance" differently. The contracting process has become increasingly complex.
- 6.3 On the basis of our examination it appears that, while there is much to build on, there is a lot of room to improve the government's contracting performance. The conclusions we have reached are sufficiently serious, and the problems sufficiently widespread and long-standing, to warrant greater top-level attention to contracting than it has received in recent years.
- 6.4 Some aspects of performance have degraded over time, and others have remained below expectations for decades. Treasury Board has not established baselines despite the multiplicity of conflicting objectives.
- 6.5 Constraints to better contracting (and to more honest reporting about contracting performance) are complex, long-standing and deeply embedded. Because of the nature of the constraints, the variations among individual departments, and the changing environment of government contracting, the potential for improvement is not uniform among departments (and even within them) or across different categories of goods and services.
- 6.6 The Treasury Board and Public Works and Government Services Canada have put in place important elements of a framework to support greater departmental autonomy in contracting. Overall, however, much remains to be done to see that these objectives are understood, accepted and realized in practice.
- 6.7 To maintain effective overall control over increasingly delegated contracting activities, delegation needs to be supported by more effective functional direction and improved visibility for results and decisions. Treasury Board Secretariat needs to:
  - explore better ways of managing long-standing tensions among the responsibilities, expectations and authority of individuals and organizations; and
  - periodically provide Parliament with a better overall strategic assessment of contracting performance and priorities, showing the progress made toward agreed objectives.
- **6.8** Public Works and Government Services Canada can assist by providing functional advice and expertise to other departments. It also needs to ensure that contracting information provided to Treasury Board Secretariat and other stakeholders is timely, credible and free of material error.



### Introduction

### Government Contracting — An Overview

#### What is contracting?

6.9 A contract is an agreement or promise, enforceable by law. In this chapter, we are talking about agreements through which the government obtains goods and services from outside suppliers. We use the words "contracting", "contracting activity" or "contracting processes" to describe the ways officials identify what they need to buy, set up agreements, and monitor and discharge contracts. And we use the words "contracting performance" to describe the many different results achieved in contracting.

### Why does government contract?

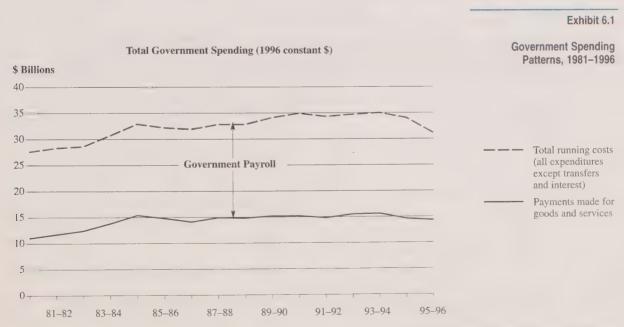
**6.10** Government buys goods and services as a way to get things done. The "business" of government has been

described as "defining and attaining the goals of public policy." Buying goods and services provides one way to obtain the inputs that officials need to "do business." Sometimes it makes more sense to buy them from outside suppliers than to make or provide them directly.

### What does government buy?

6.11 How much? The Public Accounts for 1995–96 show that the government paid outside suppliers about \$7.6 billion for services and \$6.7 billion for goods, for a total of \$14.3 billion, or just under one half of the government's running costs. In constant dollars, this is about the same amount as it spent in 1983–84 (see Exhibit 6.1).

6.12 The government's Contracting Activity Reports — which measure contracts at the time of signing rather than when paid — do not reflect very small or "informal" contracts. For 1994–95, the most recent data available, the Treasury Board reported that the government



Source: Public Accounts of Canada

entered into formal contracts with a face value of about \$8.6 billion.

The government makes about 6 million separate purchases each year. Each purchase represents a "contract" between the government and a supplier. Most of these are small in individual value. Data from Public Works and Government Services Canada, for example, show that less than 0.2 percent of contracts account for about 90 percent of the total value it processes. Across the government, however, individually insignificant transactions can add up, and offer significant opportunities for smart buying. One department, for example, obtained 40 percent reductions on list prices for stationery and office supplies by offering all its requirements for competition.

6.14 To obtain what? The government buys many different kinds of goods and services. Goods range from ships to ballpoint pens; services range

from janitorial services to health care. Public Works and Government Services Canada identifies the top 10 categories among the contracts it arranges as set out in Exhibit 6.2.

#### Risks in contracting

Contracting in general aims to meet operational needs and to secure the best value for the money spent. However, there are "many drains through which [contracting] dollars can disappear." They can disappear if managers fail to sort out what they really want — or if they make up their minds without shopping around. They can disappear if managers buy from unreliable or high-cost suppliers, if they order too much or too little, or if they accept less than was promised in the contract. In addition, those who contract must work within the framework of civil and criminal law. And there is always the risk that managers may make contracting decisions for their own advantage, or that of friends or associates. All of these

Exhibit 6.2
What Government Buys: Top Ten (in Dollar Value) Categories of Goods and Services

Top Ten Goods Categories	% of total \$	Top Service Categories	
Data processing equipment	15.2	Business, management consulting	21.1
Communication equipment	7.4	and professional services	21.1
Fuels, lubricants, oils and waxes	6.6	Computer services, EDP consultants and computer repair and maintenance	7.7
Ammunition and explosives	4.3	Aircraft repair and maintenance	6.4
Furniture	3.6	Services for development assistance	6.3
Aircraft and airframe components	3.5	Engineering services, others	4.8
Subsistence	2.9	Office building repairs and maintenance	3.7
	2.3	Protection and security services	2.8
Vehicles		Hospital services	2.6
Instruments and laboratory equipment	2.3	Printing services	2.0
Electrical and electronic equipment	1.9	Temporary help (clerical) services	1.9
Other	50.0	Other	40.7
Total	100.0	Total	100.0

Source: Public Works and Government Services Canada

considerations apply to contracting in both the private and the public sectors.

- Public sector contracting must balance additional risks and aims. It is expected to contribute to a range of public policy objectives that are "secondary" to direct operational needs, but important to stakeholders. It must, as a matter of law, conform to complex legal obligations. And it must deal appropriately with pressures to influence contracting for electoral or partisan advantage or for special-interest considerations, including those of suppliers. Contracting activity takes place under the conventions of ministerial responsibility: a minister may be called upon to explain and defend any transaction entered into under his or her authority. As the Treasury Board cautions, each transaction must be able to withstand the test of public scrutiny. Government contracting must cope with these additional expectations without being able to use some of the more aggressive — or co-operative — contracting tactics ascribed to some private sector organizations, and without incurring excessive administration costs.
- service delivery highlights the importance to the government of better contracting, in two ways. First, studies of some privatized operations suggest that better contracting was one of the main routes through which they achieved lower costs. A government that wants to work better and cost less thus needs to care about its contracting performance. Second, delivery of services through contracts introduces different kinds of risks for the government to manage.

### Significant influences on contracting

**6.18** The current environment poses many challenges for elected and appointed officials responsible for directing and

improving contracting performance; for legislators who wish to provide informed, constructive oversight; and for auditors who serve the accountability relationship between them. Some of the more important are described here.

- 6.19 Mixed expectations. Canada's treaty partners, businesses, appointed and elected officials and its citizens all expect different results from government contracting. They all define "performance" differently. To the basic expectations (meet operational requirements and get best value) can be added those of a range of public policy advocates, interest groups and stakeholders.
- contracting for goods and services, like all contracting in Canada, is subject to the provisions of the common law (or civil code in Quebec), to some 15 specific Acts of Parliament and to various treaty obligations. These establish the legal framework within which appointed and elected officials can properly exercise discretion. Among the more important treaty obligations are:
  - the Agreement on Internal Trade;
- the World Trade Organization
  Agreement on Government Procurement;
- comprehensive land claims agreements; and
- the North American Free Trade Agreement.
- 6.21 In broad terms, the effects of legal and treaty obligations have been to restrict the extent to which the government can act arbitrarily in awarding and administering contracts. They have established redress mechanisms for individual suppliers. To a limited degree, these extend the existing enforceable rights of suppliers to fair treatment in the administration of contracts into the

Each contracting transaction must be able to withstand the test of public scrutiny.

A government that wants to work better and cost less needs to care about its contracting performance.

Increasingly, the advent of technology has changed how and what the government buys.

The growing recognition of the deficit has put pressure on the government to reduce its size and cost, and to demonstrate better results for money spent.

contract award process. At the same time, treaty obligations have restricted the extent to which the government can direct contracts for socio-economic (especially regional development) reasons, while land claims agreements have created obligations to promote Aboriginal development through contracting.

- 6.22 Information technology.
  Increasingly, the advent of technology has changed how and what the government buys. The government spends about \$2 billion per year for goods and services in the areas of information and communications; using traditional approval and contracting processes to contract for technology hardware and services can cause problems down the road that cannot be specifically anticipated in advance.
- 6.23 Technology has also changed the way the government contracts, and will likely continue to do so. More information moves faster, and can be correlated differently, opening up possibilities for using information in different ways, and changing the nature of the information decision makers want. It has made possible such innovations as "just-in-time" procurement, and has revolutionized materiel management. Such arrangements change the way the government and its suppliers relate to one another.
- 6.24 Administrative reform. Like all aspects of government operations, contracting is affected by the ongoing changes in the management of the public service. This has been characterized by the Treasury Board as the pursuit of a "fact-based, results-oriented, open and accountable" public service. In the process, the public service culture is being changed. Assumptions of continuity, employment security, homogeneity and anonymity that formed part of the traditional public service employment

"contract" are being replaced with a growing realization of the permanence of change. This is evident in the greater mobility of professional managers both among departments and between government and business, in a more diverse public service, and in higher visibility of appointed officials. Without commenting on their merits, we note that these changes have affected the control environment in which contracting takes place. They have changed the basic assumptions on which the government traditionally based its approach to managing the risks inherent in contracting.

- 6.25 Further, continued delegation of contracting authority to departments places individual ministers and their deputies in a position where they are responsible for making finer judgments than before about contracting activity and performance. Not all departments are alike. This introduces the need for flexibility in approaches. It also introduces a need for tools that help managers maintain a balance between allowing contracting performance to divert attention from their primary responsibilities on the one hand and, on the other, taking it for granted to the extent that it fails the test of public scrutiny.
- **6.26 Performance pressures.** The growing recognition of the deficit has put pressure on the government to reduce its size and cost, and to demonstrate better results for money spent. This emphasis on "results" in government creates a number of challenges.
- 6.27 One challenge has been to balance the desire for good results with concern for due process and legal obligations. Faced with a choice between observing the contracting rules or meeting a significant operational deadline, most line managers we talked to would at least

bend the rules. Sometimes they cross the line, and get caught (see Exhibit 6.3).

6.28 Another challenge is to discern whether results are getting better or worse, and to decide whether reported instances of poor results represent a pattern that calls for high-level action across the board, or individual deviations that are best dealt with at the local level.

### 6.29 Overall management context.

Decisions and choices about individual contracts always take place within the context of broader management decisions, and particularly budget allocations. A manager with contract dollars in his or her budget, but without authority to hire staff, does not have a realistic choice between contracting and hiring. Past decisions and resource allocation patterns influence current contracting decisions and choices. These are set before "contracting activity" begins, and adjusted through mechanisms such as budgets, business plans and operational plans. Financial management considerations have been shown to significantly concentrate contracting activity in the last quarter of the year, for example, restricting ability to obtain best value.

6.30 Market considerations. The nature, size and structure of the pool of suppliers from whom the government buys its goods and services affects government contracting. It is difficult, for example, to get effective competition in markets characterized by a small number of dominant suppliers and with little excess capacity. At the same time, there are 99 losers and just one winner when a tender attracts 100 bids. The government has choices about how and into which marketplaces it feeds its demands; these choices have impacts.

### Responsibility for Contracting Performance

Responsibility is shared within the government for responding to these influences, and for meeting the many. mixed expectations of different stakeholders. Government procurement experts, line and financial managers and suppliers share responsibility for meeting the expectations, day by day and contract by contract. The Treasury Board, pursuant to sections 7 and 41 of the Financial Administration Act, provides leadership and a policy framework on behalf of all ministers. Public Works and Government Services Canada has operational responsibilities. Parliament has given it exclusive authority to acquire goods, and a responsibility to plan and organize the supply of goods and services. As a common service agency, it fashions many of the tools officials and suppliers use. It also holds much of the information and expertise necessary to support the Treasury Board Secretariat and departments. As more authority is delegated to line departments, they share increasingly in the responsibility.

**6.32** Parliament, particularly through its Standing Committee on Government Operations, has held many hearings to consider and recommend changes to government contracting practices. In doing so, it has explored the practical

Officials received two bids to fill a requirement for emergency power equipment. One was for \$25 million; the other, for \$10 million, did not meet the specifications demanded. Officials did not have the contract rebid but allowed the low bidder to modify its proposal and then awarded it the contract. The losing bidder appealed; the Canadian International Trade Tribunal upheld the complaint and recommended compensation for costs and loss of profits amounting to about \$2 million.

A manager with contract dollars in his or her budget, but without authority to hire staff, does not have a realistic choice between contracting and hiring.

Exhibit 6.3

**Competing Priorities** 

The Standing
Committee on
Government
Operations has
signalled the
importance
parliamentarians
attach to contracting.

implications of establishing oversight and accountability for government contracting, and has signalled the importance parliamentarians attach to contracting.

### Focus of the Audit

6.33 We undertook this audit to inform Parliament about the government's contracting performance. The question we addressed was not whether the government sometimes contracts well or poorly; we focussed on the general direction of government contracting. We wanted to see if the instances of poor results as reported from time to time in our audits, internal audits and the media are endemic and worsening — deserving top-level attention — or whether they mostly represent isolated instances of deviation from prevailing norms and

standards. We examined both the accountability framework established by the Treasury Board and the results obtained by those following its leadership and working within its framework. Exhibit 6.4 summarizes the key criteria we considered important to achieving management and operational results that characterize good contracting performance.

6.34 We based our judgments on Treasury Board policy, augmented where necessary by reasonable expectations. Against these expectations, we considered a range of information derived from government databases, management reports, testimony before standing committees, past audits, interviews and examination of individual contracts.

#### Exhibit 6.4

Contracting Performance: Key Criteria for Results

#### **Management Results**

**MANAGEMENT DIRECTION:** The extent to which the contracting objectives of the government are clear, well understood and well integrated into the government's plans, structures, delegations of authority and decision making.

**MONITORING AND REPORTING:** The extent to which contracting performance is monitored, reported and acted upon.

**PEOPLE AND WORKING ENVIRONMENT:** The extent to which the government provides appropriate incentives, sanctions and development opportunities to sustain a skilled and competent contracting work force.

**OTHER RESOURCES AND TOOLS:** The extent to which contracting processes and tools provided are appropriate to achieve the desired contracting performance.

#### **Operational Results**

**SCREENING:** The extent to which contracting screens out requests for goods and services that are unacceptable, unduly expensive, or unnecessary, so that it buys — with integrity — only what it needs.

COMPETITION: The extent to which competition (when used) is open, fair and gets good value.

**DELIVERY:** The extent to which government contracting delivers what was agreed, when it was agreed, and for the price agreed.

**CYCLE TIME:** The extent to which the government arranges contracts in a timely manner.

**ADMINISTRATIVE COSTS:** The extent to which the federal government arranges and administers contracts at a reasonable cost to all participants.

**CONTRIBUTION TO OTHER OBJECTIVES:** The extent to which contracting contributes to — or does not undermine — other objectives.

- **6.35** Illustrative cases that support our findings are presented in the special insert beginning on page 6-14.
- **6.36** Further details of the way we carried out the audit can be found at the end of the chapter, in **About the Audit**. A report based upon a technical review of the contracting process against our audit criteria has been provided to the Treasury Board Secretariat.

### **Observations**

## **Overall, Contracting Needs More High-level Attention**

- 6.37 On the basis of our examination it appears that, while there is much to build on, there is a lot of room to improve the government's contracting performance. The conclusions we have reached are sufficiently serious, and the problems sufficiently widespread and long-standing, to warrant greater top-level attention to contracting than it has received in recent years.
- 6.38 The evidence we have seen shows that some aspects of performance have deteriorated over time, and comparison with past studies and royal commissions suggests that others have remained stubbornly below expectations for decades. The Treasury Board Secretariat has not established baselines or clear expectations, and there is insufficient relevant and credible information about the results achieved against some important criteria to support a firm conclusion about whether those results are getting better or worse, or, indeed, if many of the desired objectives are being met. The potential for improvement is not uniform among departments (and even within them) or across different categories of goods and services.

- **6.39** With respect to policy and framework responsibilities, Treasury Board Secretariat (TBS) and Public Works and Government Services Canada (PWGSC) have acted to:
- make departments more responsible for contracting;
  - · implement treaty obligations; and
  - adapt to the impact of technology.

They have put in place important elements of a framework for greater departmental autonomy in contracting. Overall, however, much remains to be done to see that these objectives are understood, accepted and realized in practice. Right now, the lack of agreed-upon goals and priorities suggests an acceptance of only incremental change, which is at odds with the challenges facing government contracting.

- 6.40 Significant investments in processing and information systems have been made, and now need to produce the intended operating efficiencies. The information generated by systems, and by the government's review capacity, is just beginning to be channelled to help the Treasury Board Secretariat guide contracting performance; to identify the present level of contracting performance (or capacity); to agree on clear targets for improvement; and to see that targets are met.
- 6.41 Government/industry consultations, and our interviews, reveal widespread concerns that the government has lost or is close to losing the critical skills needed to contract well. But we found no one responsible to see that the government has, or is developing, the skills needed to maintain or improve contracting performance. Contracting performance will be critical to the government's strategy for alternative service delivery.

While there is much to build on, there is a lot of room to improve the government's contracting performance.

Some aspects of performance have deteriorated over time, and others have remained stubbornly below expectations for decades.

Contracting performance will be critical to the government's strategy for alternative service delivery.

- observed vary among departments and with different types of goods and services. We believe that the government still derives substantial benefits from the legacy of public service values and the basic integrity of the established processes, particularly in contracting for traditional goods. Too rarely, however, is contracting performance guided by clear, concrete and challenging performance goals and expectations.
- 6.43 Particularly in contracting for information technology and related professional services, results have been disappointing. Screening requests for systems development contracts presents

- special challenges, and we agree with the Treasury Board Secretariat that the need for improvement has become critical.
- 6.44 It takes time for efforts to show up in results. This report would be unbalanced if it did not recognize the scope and scale of current efforts to provide stronger leadership and a more flexible but more clearly defined framework. We observed initiatives at the centre and in departments as well as at the individual level. They include, for example:
- the recent report of a deputy minister task force on the management of common services;

#### **ILLUSTRATIVE CONTRACTING CASES**

uring the course of this audit, we interviewed the staff involved with, and examined the files pertaining to, about 60 of the contracts included in our survey. The following cases illustrate many of the issues discussed in this chapter

These case histories are not presented as representing anything but themselves; they are illustrative rather than representative. We expected that there would be good and not so good contracts. Some of both are described here, and internal audit reports detail many more. Readers should not draw inferences about any department or the government as a whole based solely on these cases.

If there are common messages we can draw from these cases, they are these:

- there is a big difference between compliance with rules and "good" performance;
- many of the decisions that shape contracting performance are made before the individual contract requisition is raised. The results achieved by officials who actually

initiate, process and approve individual contract requests reflect the influence of broader management and comptrollership decisions; and

 once poor or marginal contracting practices take root they are difficult to change, and it becomes difficult to manage performance.

#### **Case 1 Contracting for Software**

This case illustrates how good screening — in deciding to aggregate small requirements — got better value for the Crown. It also illustrates how the perseverance of one individual can make a difference by changing established patterns. This is but one example of a good screening practice. Similar efforts are being introduced in other departments.

The department's Informatics Directorate reviews all requirements for software to ensure compatibility with existing software and programs. During 1994 the Informatics Director noted that numerous requests for a common software were being made. He issued instructions to hold

and consolidate these requests and see whether a bulk buy might result in a better price than that available from a pre-existing standing offer agreement. Requisitions were accumulated over a period of two months that, according to the department, would have cost approximately \$3 million at the standing offer price. The department persuaded Public Works and Government Services Canada to negotiate a price of \$1.3 million, which covered all present and future departmental requirements, under a site-licence agreement.

This contract, sole-sourced because of copyrights/exclusive rights, was successfully negotiated to secure a better price. The department estimates that it saved nearly \$2 million. While grouping the requirement did increase cycle time and added costs, the savings more than offset any additional time and cost required to consolidate requests and negotiate prices. Public Works and Government Services Canada officials interviewed in connection with this case noted that this is the direction in which they want to go.

- re-engineering initiatives in departments; and
- changing buying patterns to realize potential economies of scale.

## **Contracting Results Remain** below Expectations

## Management direction — framework and expected performance need clarification

6.45 The overall objectives of government contracting — to meet operational needs and to secure best value — are generally clear, in our opinion.

Many of the mechanisms for integrating

these objectives into plans and structures have been put in place or provided for, and practices have begun to change.

- 6.46 However, we believe there is a reasonable case for more purposeful improvement of contracting results. A number of useful analyses have been carried out, but not since the Nielsen Task Force Report of 1985 have we been able to find any clear attempt to assess the possible payoff from buying smarter, and what it would take to obtain it.
- 6.47 The leadership of TBS and PWGSC has not always been clear or co-ordinated. They are not yet in a position to demonstrate that they have

There is a reasonable case for more purposeful improvement of contracting results.

(cont'd)

### **Case 2 Contracting for System Services**

This series of contracts, issued over a six-year period, illustrates a number of points discussed in the chapter. Among the more important:

- Competition in form alone doesn't necessarily achieve "best value", and there are risks associated with initiatives taken based on a single indicator without an understanding of the context and related impacts.
- In balancing operational demands and contracting considerations, managers do what is possible, taking shortcuts if necessary, and strive to improve contracting performance over time.

In 1993–94, after a number of years of intense development activity associated with government-mandated systems development, over 600 IT contractors were working in the department to respond to its needs for IT professional services. The value of the contracts associated with these contractors was approximately \$71 million. A factor contributing to this level of contracting was that until 1 April 1993, person-year controls were in effect on a

#### **ILLUSTRATIVE CONTRACTING CASES**

government-wide basis. In some cases, departments had been provided with the dollars to make the required systems changes but no authority to hire staff. The department established the contracts under PWGSC's Supply Arrangement for Informatics Professionals and reported them, according to appropriate definitions at the time, as non-competitive.

The department told us that in 1994-95 it issued a letter of interest (LOI) to all firms appearing on PWGSC's Supply Arrangement for Informatics Professionals. The purpose of the LOI was to establish a source list of suppliers qualified to supply the department's specific IT services needs. The department consulted closely and held all vendor briefings with vendors on the LOI approach. The department also indicated that it consulted an association representing a significant portion of the Ottawa vendor community. The department received approximately 110 responses representing some 2,100 different contract resources.

Approximately \$38 million of IT professional services contracts were issued to 327 contractors by tendering from a source list. Of these, 295 had been awarded contracts under the previous

arrangement. Although the rules were followed, and the *form* of competition was observed, there was little effect on who got the business despite the added costs to the government and suppliers.

On reviewing a sample of the 1994–95 contract files, however, we noted other factors – which go to the *substance* of competition – that may have played a part in the openness and fairness of the bid solicitation and evaluation processes.

In 1995–96, the department amended many of the contracts established under the Letters of Interest (LOI) in 1994–95 to add an additional year of service. These amendments qualified as competitive under the definitions provided by the Treasury Board at that time.

In 1996–97, the department used the Informatics Professional Services System of PWGSC to source most of its requirements.

The department also notes that by late 1996–97, turnover among contractors had significantly increased. Indeed, of the contractors on site at the time, approximately 40 percent represented "new" contractors who had not previously been under contract with the department.

(cont'd)

Who is responsible for what is too often unclear, and performance expectations are vague and conflicting.

successfully created the conditions to promote both good results and respect for rules. Who is responsible for what is too often unclear, and performance expectations are vague and conflicting.

6.48 Confusion about the respective roles and responsibilities of PWGSC, Treasury Board Secretariat and line departments has persisted for decades. On the one hand, PWGSC's legislation states, for example, that it has a responsibility to improve the efficiency of the whole contracting process. Its officials note that

the common service role may well be seen to deny program managers authority to manage. At the same time, PWGSC is clearly expected — in, for example, decisions of the Canadian International Trade Tribunal — to play a control role, screening requisitions to ensure that specifications are open and fair and making sure that the process followed complies with laws. On the other hand, Treasury Board Secretariat officials acknowledge that PWGSC has statutory authority to purchase goods and enter into service contracts if asked to do so by

(cont'd)

Management attributes the low contractor turnover in 1994–95 (approximately 10 percent) to the need for system-specific experience and skills for its departmental systems and to the limited qualified external resource pool from which to draw. It also notes that while the "renewal" ratio for previous contractors appears quite high, it is not unreasonable given the aforementioned need to balance the implementation of changes in contractor participation with the requirement to develop and operate systems central to the operations of the department.

As at 1996–97, the department believed that it had made significant progress in regard to the use of IT contractors:

- The number of contractors was reduced to as low as 155 (25 percent of earlier numbers) in the summer of 1996, though this number fluctuates with total resource requirements and availability of staff.
- Dependency on contractors in the support of specific systems has been significantly reduced, and core knowledge and expertise for all systems is now vested in government employees.
- Contracting strategies for contracting of IT professionals continue to be improved.

### **ILLUSTRATIVE CONTRACTING CASES**

### **Case 3 Protective Equipment**

This case illustrates how poor screening—involving inadequate testing—led to operational deficiencies and had a major impact on value for money.

(This case came to our attention through a review of departmental internal audit reports.)

In 1984, the department decided to develop and design a type of protective equipment. The design was to be based on that of another country, but incorporating Canadian modifications. In September 1986, field trials were carried out on a prototype design. Based on this testing, final specifications were issued and a \$10.5 million contract was awarded to produce the equipment. The item was delivered in February 1991.

Subsequently, certain design flaws affecting the performance of the equipment under field conditions were noted. The department states that the operational deficiencies were largely attributable to project management issues. There was insufficient follow-up of user trials during product development. There was also acceptance of a significant change to production specifications without a formal evaluation to determine the overall effect on the end product. Should the department decide to modify the equipment, the additional cost could be

up to \$4.5 million. If the modifications are not carried out, the equipment will be very limited in its use.

In response to an internal audit review of this case, the department is committed to applying the lessons learned from this project to ongoing projects.

### **Case 4 Production of Products Using Intellectual Property**

This case illustrates the difficulties of contracting fairly for goods or services involving intellectual property developed by the Crown.

In 1993 the department granted a company sole right and licence to market and sub-license products and product updates worldwide and to use departmental data to create these products and product updates. Initially this licence was issued for five years with an additional five-year option, at the discretion of the licensee (the agreement was subsequently amended to make the option exercisable at the discretion of the Minister). Quality control remained with the department. The department did not prepare, prior to granting exclusive licence, a business case or other analysis that identified the value of the data being made available or the need for products contemplated under the agreement.

client departments. PWGSC's contracting activities are expected to function within the policies and guidelines issued by Treasury Board, just like any other department.

6.49 Our own observations, internal audits and documents all suggest that this confusion over service or control finds its way to the individual procurement officer, and to the line manager who receives mixed messages about whether and how far to push suggestions for better contracting practices. Internal audit

reports observe time and time again that line managers and procurement officials do not understand well their responsibilities or how to work effectively together to achieve good results. Within departments, our observations confirm this assessment, while suggesting that some departments have set clearer direction than others.

**6.50** A Treasury Board synthesis of internal audit reports dealing with contracting over the last five years comments on the extent of understanding:

#### (cont'd)

In 1995 the department issued a sole-source contract, with a total value of over \$250,000, to the same company to supply products based on the data. The sole-source rationale was justified with reference to "exclusive rights", based on the department's licensing agreement. The department had, by its previous decision to award exclusive rights, effectively eliminated other suppliers from competing who could have processed and packaged the data. By failing to perform appropriate analysis prior to granting the exclusive rights and licence, this department has forgone the benefit of competitive tendering.

The Department is in the process of contracting an individual to perform a general review of the agreement, with a view to determining if this is a good agreement for the government.

Depending on the outcome, changes to the agreement may be warranted.

### Case 5 Information Technology Services Contract

This case illustrates how lack of clarity about what is really needed can lead to poor "screening" decisions — with downstream effects on, for example, the fairness of competition, delivery, and maintenance of the merit principle.

Over a five-year period, the department contracted with a company to provide

### **ILLUSTRATIVE CONTRACTING CASES**

software development, maintenance and support services for in-house computer systems at a cost of about \$500,000. The department informs us that the services being provided relate to a very important program for which service is very difficult to obtain, because of the age of the programs being used. Over 90 percent of the services were provided by the same individual over this period, notwithstanding that the original contractor assigned its interests in the contract to another company. We have not been provided with any documentation to demonstrate that the expenditure of approximately \$100,000 per annum was the most economical way of meeting the requirement.

Two factors undermine the perceived fairness of the competition by which the contract was awarded. First, terms and conditions that were deemed essential and were used to disqualify some bidders - were relaxed for the substitute candidate provided by the winning bidder before work started. Second, the bid evaluation process and criteria poorly reflected the actual requirements of the work that had to be done, as shown by subsequent usage. Had the bid evaluation process and criteria reflected actual requirements, a different bidder would have scored higher, at a price some 20 percent lower than that accepted.

#### **Case 6 Consulting Services**

This case illustrates the difficulties of controlling expenditure when entering into flexible relationships with consultants for advice without clearly specifying the deliverables.

In 1994, the department entered into a standing offer arrangement that provided for support and consultation on a per diem basis. This contract was valued at \$200,000, which was to cover advice and consultation over a period of 16 months. Within eight months, 85 percent of the funds had been expended. The department terminated use of the standing offer arrangement and negotiated an eight-month, fixed-price contract - to cover a very small subset of the previous services - for the balance of the period. The value of this new contract was equivalent to the leftover funds. A different contractor was engaged to perform another aspect of the requirement that, according to departmental officials, would be better provided centrally.

The department did limit its cost liability, and reduced its per-month costs by adopting a fixed-price format for the extension and by scoping out certain aspects of the deliverable. However, it is our opinion that even the revised contract terms were too vague to provide effective guidance to the contractor, or control over his invoices.

There are significant unresolved debates about the scope of organizational responsibilities and how best to discharge them.

Quantitative data about government contracting are fragmented, replete with jargon, and laced with inconsistencies. Time and time again, managers reported that they and their staff either did not know something contravened contracting policy, did not understand the significance of a requirement, or did not see how it applied in their particular situation.

- ... the most common thread running through the reviews was the lack of clear communication about the meaning, content and importance of central agency and/or departmental policy requirements to those who most needed to understand them.
- Within Public Works and 6.51 Government Services Canada --- and between it, the Treasury Board Secretariat and departments — there are significant unresolved debates about the scope of organizational responsibilities and how best to discharge them. In the absence of a clearer sense of direction, and better linkages to responsibilities and reporting, the ongoing discussions and debate about the authority of Public Works and Government Services and individual departments lack focus, and we are unable to assess whether the authority delegated is commensurate with the responsibility assigned and the performance expected.

### Monitoring and reporting — credible and relevant information still lacking

6.52 Over the past few years the government has made efforts to improve its monitoring and measurement capacity. We observed encouraging uses of information. For example, the Treasury Board Secretariat has begun to provide feedback to departments based on their contracting statistics. It recently analyzed internal audit reports dealing with contracting to draw out common patterns and themes. The Standing Committee on Government Operations has held a series of hearings on contracting that have elicited external perceptions, exposed

inaccuracies in existing data and, most significant, signalled the importance that Parliament places on contracting.

- 6.53 Overall, however, current reporting practices do not yet provide the kind of credible and relevant information needed to manage. Quantitative data about government contracting are fragmented, replete with jargon, and laced with inconsistencies. Some of the problems include inconsistent definitions of indicators, unreconciled data, and insufficient attention by senior management.
- 6.54 Inconsistent indicators. The two main indicators of contracting activity that the Treasury Board Secretariat monitors are the ratio of competitive to non-competitive contracts and amendments. There are problems with both of them.
- Competitive and non-competitive contracts. Treasury Board policy defines a sole-source contract as competitive if public notice has been given of the intent to award it and that notice has not been validly challenged by another bidder. For treaty reporting purposes, however, such contracts are classified as noncompetitive. Some standing offers and supply arrangements are issued as a result of a competitive process. Call-ups against such arrangements are sometimes considered competitive and sometimes non-competitive. A departmental official writes: "It is suggested that [Public Works and Government Services Canada and Treasury Board Secretariatl work with departments to resolve the above questions in order to arrive at a consistent and fair representation of departmental procurement practices." The problems are compounded by the number of contracts that attract only one bid but are nonetheless classed as competitive.
- Amendment data. Not all amendments are bad. But the systems do

not distinguish between, for example, extensions that were clearly contemplated — and disclosed — when the contract was tendered, those that arose because of unforeseeable circumstances, and those that arose because of poor estimation or specification.

Insufficient senior management 6.55 attention. Hearings of the Standing Committee on Government Operations raised the profile of contracting performance, causing departmental officials to look more closely than before at their contracting results. Officials in one department told us that it took four person-months of work to make sense of the contracting activity figures reported for them, and to prepare for the hearing. Officials in Public Works and Government Services Canada acknowledge the problems in government contracting data but do not believe they have the mandate to fix them.

- **6.56** As mentioned previously, many of the mechanisms to support more purposeful procurement exist but as yet the market and purchasing information that would support those mechanisms has not been harnessed.
- **6.57** The Treasury Board Secretariat and Public Works and Government Services Canada have yet to:
- develop a consistent and balanced reporting framework that would adequately support the trend to delegate more "contracting authority" without compromising effective control;
- find appropriate means to get managers to interpret raw data and indicators;
- resolve ongoing arguments about how to define and categorize common indicators and data elements that would support an agreed-upon framework, and

permit effective sharing and aggregation of data; and

• process contracting faster, audit it more consistently, and share it more effectively.

## People and working environment — concern about loss of contracting knowledge

- 6.58 Regarding incentives and sanctions in contracting performance, Treasury Board has set the tone at the top by commending some departments and exhorting others to do better, based on their Contracting Activity Reports. As yet, the weaknesses described elsewhere in the reporting of information make it difficult to reliably recognize good and bad performance as a basis for providing appropriate incentives, sanctions and training.
- 6.59 Pinpointing the difference that people make. At the level of individuals, we were advised of two instances where contracting authority had been rescinded or withdrawn in seven departments over the last five years. Contracting and finance officials knew that some responsibility centre managers consistently discharged their contracting responsibilities better than others. But, with one exception, we found no organized efforts to establish the patterns and to focus training or remedial action where it could do most good. Some managers with whom we discussed this pattern cautioned that informal peer pressures, while not visible, play an important role in creating the work environment. Others, however, observed that without greater visibility there would be no real accountability, and no incentive to disturb the status quo.
- **6.60** There are widespread concerns about the loss of skills, corporate memory and knowledge (as there are in other parts of the government), and about the need for

Officials in one department told us that it took four person-months of work to make sense of the contracting activity figures reported for them.

There is a particular lack of detailed knowledge about products and markets.

While there has been a
10 percent increase in
the number of
Procurement Grade
Officers over the last
10 years, we found no
one with clear
responsibility for
assessing ongoing
skills and capacity
requirements.

greater skills to carry through still further delegation of contracting authority and respond to changing patterns. There is a particular lack of detailed knowledge about products and markets. Based on the operational results, the explanations given for deviations, and staff surveys, the evidence suggests considerable support for these concerns. For example, while there has been a 10 percent increase in the number of Procurement Grade Officers over the last 10 years (see Exhibit 6.5), we found no one with clear responsibility for assessing ongoing skills and capacity requirements.

### Other resources and tools — progress is being made

**6.61** The Treasury Board Secretariat, individual departments and Public Works and Government Services Canada have

made progress toward developing the tools to implement the requirements of trade agreements and to automate contracting. The evidence suggests that a significant portion of the potential returns from this investment remain to be realized.

6.62 Sharpening the tools. Public Works and Government Services Canada aims to improve its Open Bidding and its Automated Buyer Environment systems to support the government's strategy of increased delegation to departments, and to focus its own efforts on high-risk procurements. In December 1996, it completed an evaluation of its open bidding policy and system. The report concluded that while information technology had been introduced, significant "teething" troubles and

### Exhibit 6.5

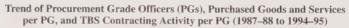
Gross Indicators of Productivity

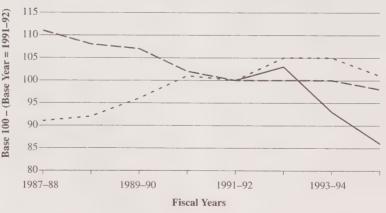
Number of procurement grade officers in government

Public Accounts spending for purchased goods and services per procurement grade officer

TBS contracting activity per procurement grade officer

Source: Treasury Board Secretariat – Contracting Activity Report, Incumbent Extract Public Accounts





Base Year = 100 was set at 1991–92 as Treasury Board's Contracting Activity Statistics were not available before that year.

Number of Procurement Grade Officers has increased by more than 10% over the last eight years, from 2,179 to 2,429.

At the same time, spending on goods and services per Procurement Grade Officer has fallen by over 10%, from \$6.7M to \$5.8M. Over the past four years, Reported Contracting Activity (contracts entered into) per Procurement Grade Officer has fallen by 18%, from \$3.8M to \$3.1M.

implementation concerns needed to be addressed. These include:

- reducing system and process costs for the government as well as suppliers;
- better categorizing information and opportunities in the system; and
- linking the advertising system with the processing systems.

The evaluation also reflected a number of unresolved questions about broader management direction that need to be addressed before adopting open bidding for all contracts over \$25,000, to the exclusion of pre-qualifying bidders through source lists and other means.

6.63 Other initiatives respond to specific marketplace pressures and to performance problems in complex systems development contracts. The government is not yet in a position to report success in developing the tools to contract well for service delivery, or in developing (or buying) the tools to support smart buying of specific types of goods or services. We are unable to conclude whether the costs involved have been reasonable, because we do not know how much the government has spent. As for other aspects of support costs, the information is fragmented and incompletely recorded. The systems development costs alone, however, significantly exceed \$300 million. A recent deputy minister task force questioned the affordability of continuing to develop systems in an unco-ordinated manner, and recommended consolidation of the effort.

### Screening — practices need significant improvement

6.64 The Treasury Board sets high expectations for the screening of requests for contracts. Both Treasury Board and line managers rely heavily on business planning and budgeting processes to

separate "wants" from "needs", and on review and approval processes to frame requirements so as to obtain best value and respect government contracting rules. We did not examine program management or comptrollership in individual departments and are unable, therefore, to conclude definitively whether or not only valid operational needs are contracted for. However, evidence such as the high level of inventories held (discussed in Chapter 23 of our 1996 Report) and overall expenditure patterns suggests that these mechanisms have had limited success in challenging historical contracting patterns.

6.65 Screening practices for individual contract requests do stimulate competition or negotiation of better value from suppliers, and detect and deter some inappropriate requests. Line and functional managers stressed that their day-to-day interactions, contacts and involvement provide them with important information about contracting activities and performance. Many of them provided anecdotal evidence of having changed or stopped proposed contracts before formal requisitions were issued. They also typically noted that about 80 percent of problematic contract requests emanated from 10 to 20 percent of managers. For the most part, they prefer to deal with such managers informally. One line department and one central agency provided anecdotal evidence of having restricted or withdrawn contracting authority or required refresher training as a result of informal monitoring.

6.66 However, our current work suggests that results would have to be improved significantly to meet or even approach the expectations of the Treasury Board. Not enough contracts are competed for to meet Treasury Board or public expectations. Despite sustained pressure to improve the extent of competition, annual

The government is not yet in a position to report success in developing the tools to contract well for service delivery, or in developing (or buying) the tools to support smart buying of specific types of goods or services.

Screening practices appear to have had limited success in clarifying just what is required.

### Contracting Performance

Contracting Activity Reports for the four years 1991–92 to 1994–95 (see Exhibit 6.6) show the levels of open or selective tendering, which according to the government have stayed below expectations.

6.67 When competition is not practical, more could be done to negotiate best value. Where only one supplier is invited to bid, or use is made of standing offer arrangements, prices are sometimes negotiated. Our sample indicated that this applies to 40 percent of sole-sourced contracts, and to 29 percent of those called up under standing offers. There is some confusion about whether and under what conditions it is appropriate to

negotiate the price under a standing offer arrangement.

**6.68** Despite the number of approvals required in policy, screening practices appear to have had limited success in clarifying just what is required, particularly in informatics and service contracts. The evidence suggests that some departments specify what they require more clearly than others.

### Competition — expectations are vague

**6.69** Treasury Board describes competition as the cornerstone of government procurement. Effective competition seeks out best value for money, and minimizes the risk that

Exhibit 6.6

#### **Competition Tables**

				\$ Bill	ions			
Competed (Openly, or Selectively) <sup>1</sup>	5.6	66.4%	4.6	53.9%	4.9	63.7%	4.3	56.5%
Sole Sourced with notice ACANS <sup>2</sup>	0	0	0	0	0	0	.3	3.8%
Total	5.6	66.4%	4.6	53.9%	4.9	63.7%	4.6	60.39
				Thousands o	f Contracts	S		
Competed (Openly, or Selectively) <sup>1</sup>	77.2	86.4%	15.1	63.7%	17.5	62.7%	16.3	60.6%
Sole Sourced with notice ACANS <sup>2</sup>							1.5	5.5%
Total	77.2	86.4%	15.1	63.7%	17.5	62.7%	17.8	66.19

About 10% of the number of contracts and 10% of the value of competitive contracts processed by Public Works and Government Services Canada had only one bid. Neither Public Works and Government Services Canada nor departments capture information that would allow us to determine what percentage of costs receive more than one bid but only one bid was compliant.

Source: Treasury Board Secretariat, Annual Contracting Activity Report, reclassified

<sup>2</sup> ACAN = Advance Contract Award Notice - notification that one supplier will be awarded a sole-source contract, unless others show they can also provide the goods or service

<sup>&</sup>lt;sup>3</sup> 1994–95 < \$25,000.

officials may make contracting decisions for their own advantage or that of friends and associates.

- 6.70 The evidence suggests that competition, where it is used effectively, does produce better prices and other benefits. Open bidding, where it has been used, has attracted more bidders for individual contracts. Advance notice mechanisms have made it more transparent and independent appeal processes have made it more fair. The 1996 evaluation of open bidding reports that, on average, Public Works and Government Services Canada sent out more bid sets and received more bids for openly advertised opportunities than for those selectively advertised. In 1994-95 it secured, on average, about 10 bids for each openly advertised opportunity compared with about 6 bids for selectively advertised opportunities.
- 6.71 At the same time, few benefits are achieved when the forms of competition fail to attract more than one supplier. Internal audit at PWGSC reported that open bidding had only limited success in opening up government business to new suppliers. Rather, the same suppliers were competing harder for the business advertised through the open bidding system.
- on the open bidding system. They are awarded through selective tendering or are sole-sourced. Representations from small business, and internal audits, both suggest that these contracts are not open because their complexity and the cost of doing business with government tend to hinder market entry. In addition, the lack of analysis and forecasts of what the government will want in specific market segments hinders the involvement of new suppliers.

6.73 Overall, in our opinion, Treasury Board is not yet in a position to say that it is getting what it wants from competition, where it is used. Its expectations regarding competition are vague, and possibly unrealistic. Further, we found no one who regularly monitors the effects of competition in a meaningful way; an exception is the evaluation of the Open Bidding Policy, undertaken by PWGSC in 1996. The evidence suggests a relatively low level of unfair, ineffective or artificial competition.

### **Delivery** — few incentives to meet promised terms

- 6.74 Senior officials rely heavily on certifications under section 34 of the *Financial Administration Act* to ensure that the government gets what it pays for. Internal audit reports and our own work, however, suggest that their assurance is not always warranted.
- 6.75 About half the internal audit reports we reviewed provided information about one or more of the results associated with delivery. About half of those reported problems that, in our view, are serious or very serious at the level of the unit being audited. In at least some of these reports, the internal auditors were called in to confirm or dispel senior management concerns. Accordingly, the overall extent of the problems may not be as great as the raw numbers suggest.
- **6.76** Most but not all of these problems were associated with contracts for services rather than goods. For example:
- "Activity Centre Managers [are] generally unclear on what they are certifying ... under S. 34 receipt of goods, matching and verification of invoices, correct prices."
- "Invoices and files do not support A) the number of hours worked; and B)

The evidence suggests that competition, where it is used effectively, does produce better prices and other benefits.

Overall, in our opinion, Treasury Board is not yet in a position to say that it is getting what it wants from competition, where it is used. Many managers feel that it takes too long to arrange government contracts.

contract deliverables – some deliverables were submitted, reorganized and resubmitted."

- "Contractor evaluations, although required by policy, are often not completed."
- ".. method of payment was not in accord with basis stated in the contract, or was unspecified."
- "... absence of statements of work which clearly define deliverables and performance requirements .. and objective substantiation that full value was received for payments made."
- ".. 91 percent of contracts reviewed [in this branch] were not completed in accordance with negotiated terms and conditions. One third had more than 50 percent increase in funding or 100 percent increase in time to complete."
- provide one tool to find poor delivery results. Analysis of amendment patterns suggests that most contracts turn out as initially expected, with service contracts being amended more often and for higher amounts than goods contracts. It is not entirely clear whether this is because requirements were poorly specified initially, the contractors were poorly managed, or contractors bid unrealistically. Contracts related to some departments and some suppliers are amended substantially more than others.
- 6.78 As reported in previous work of this Office, delivery on systems development contracts has been particularly problematic. The current state of monitoring and reporting on contracting performance provides few incentives for those contractors and departments who meet their contractual promises more consistently than the norm.

### Cycle time — need to further analyze reasons for length

- 6.79 Many managers feel that it takes too long to arrange government contracts. To reduce cycle time, the Treasury Board Secretariat and Public Works and Government Services Canada have given departments more authority to arrange their own contracts, and have introduced standing offers and acquisition cards. We found little factual data to support this change in emphasis and action, or to gauge its success.
- 6.80 The limited evidence available suggests that Public Works and Government Services Canada cycle time has deteriorated over the last five years. PWGSC management considers that these changes reasonably reflect a number of factors including, among others, the effects of trade agreements and of increased delegation. A limited number of departmental re-engineering studies suggest that eliminating non-productive steps could cut cycle time by 40 to 70 percent.
- 6.81 In our sample (see Exhibit 6.7), contracts that were competed for took longer to arrange than sole-sourced contracts and call-ups against standing offers, as did contracts arranged through Public Works and Government Services. We recognize that there is a need for further analysis of the causes of extended cycle times.

### Costs — higher administrative costs than necessary

6.82 Through its Program Review process, the government has committed itself to reducing the costs of administering contracts by about \$50 million per year. The evidence we have seen tends to confirm that the costs of arranging and administering contracts — which we estimate very roughly at

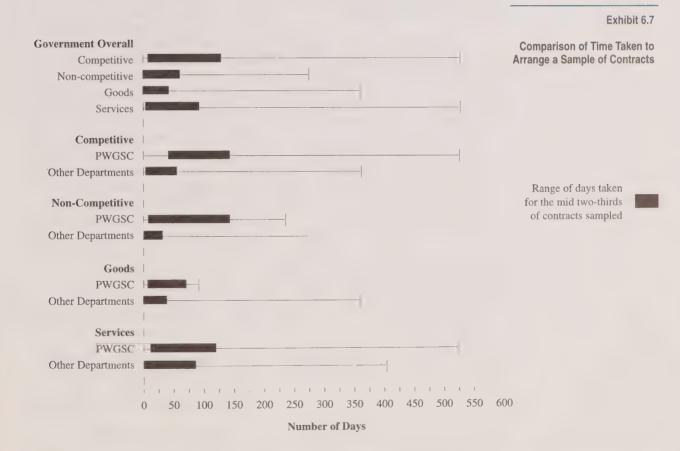
about \$600 million per year — are higher than they need to be.

data that are available suggest that these administration costs have risen appreciably over the last 10 years, despite the investments in technology and disproportionately to changes in contracting expenditures or activity (see Exhibit 6.5). A limited number of re-engineering studies suggest that some of the costs involved could be cut by as much as 50 percent. The evidence further suggests that the potential for savings is not evenly spread through the system.

### Contribution to other objectives

6.84 Past audits of this Office have looked at the contribution of individually significant Crown projects (and contracts) to achieving socio-economic objectives. In this audit, we considered the cumulative effect of individually smaller contracts on a range of other objectives. Recent initiatives — in relation to alternative fuels and to Aboriginal set-asides (the policy to set targets for the level of Aboriginal procurement) — have sought to establish clearer procurement goals than in the past. It is too soon, however, to assess their impact.

Administration costs have risen appreciably over the last 10 years, despite the investments in technology.



Contracts arranged through Public Works and Government Services Canada took longer to arrange than those by departments alone. They were also significantly less likely to have upward price amendments: the average amendment increase for Public Works and Government Services Canada contracts in this sample was 3 percent; the average for other contracts was 29 percent.

Constraints to better contracting (and to more honest reporting about contracting performance) are complex, long-standing and deeply embedded.

Traditionally, procurement 6.85 expectations relative to other objectives have been added without making clear the results expected and without measuring the results achieved. Expectations and information on results are generally too vague to support firm conclusions. Such evidence as is available suggests that efforts to promote — or at least act consistently with — stated objectives fall short of stakeholder expectations. However, departmental managers treat the absence of specific feedback from policy departments as confirmation of good results.

## Conclusion and Recommendations

- 6.86 In our view, our most significant findings are those that relate to management direction, monitoring and reporting, and the work environment. These are framework issues: they bear on Treasury Board's ability to discern whether contracting is getting better or worse, to manage shared responsibilities, and to agree about priorities for improvement. And they bear on the ability of all departments to achieve good contracting results.
- important when Treasury Board could assume that maintenance of the status quo was an appropriate strategy. Today, they constrain the ability of individuals and organizations to respond appropriately to a fast-changing environment and to deliver the kind of high performance results (at low cost) that governments need to be able to deliver and demonstrate.

  Contracting needs better direction and support, and more focus, if it is to change past patterns without compromising the traditional values of integrity and probity.

- 6.88 Improving contracting performance is not simply a technical issue for bureaucrats or procurement specialists. Constraints to better contracting (and to more honest reporting about contracting performance) are complex, long-standing and deeply embedded. Not all of them fall within the scope of this audit, although they must be considered in any realistic attempt to improve performance.
- 6.89 Because of the nature of the constraints, the variations among individual departments, and the changing environment of government contracting, we do not believe that better contracting will come from simple solutions, or from "one size" models designed to fit all circumstances at all times. Hard choices and fine distinctions will have to be made: about what to contract; about where it is worth investing focussed management attention to achieve contracting excellence; and about how to balance concern for results with due process.
- 6.90 Continuing delegation of contracting authority by the Treasury Board and of procurement authority by Public Works and Government Services Canada have made line departments increasingly responsible for making those choices, and for identifying and acting on opportunities and problems. The Treasury Board Secretariat can help them by providing them with the right tools.
- 6.91 The Treasury Board Secretariat should provide departments with:
- a policy framework within which to work that reflects departmental differences and establishes clearer performance goals, where appropriate;
- better ways of managing long-standing tensions among the responsibilities, expectations and authority of individuals and organizations; and

- a framework for management reporting that is better related to assigned responsibilities and expectations for performance, and is supported by consistently defined, credible performance information.
- **6.92** We have been impressed by the way public reporting, whether or not required by law, can influence behaviours as well as inform those outside of government. There is a need for an impetus for improvement, an opportunity to debate on the relative importance of different results, and a continuing focus on contracting performance.
- 6.93 The government should improve its reporting to provide Parliament with a periodic overall assessment of contracting performance and priorities, showing the progress made.

Treasury Board Secretariat's response: *In contracting policy, as in other policy* areas, the Treasury Board is providing more authority, flexibility and optionality to individual departments and agencies. This approach will enable them to effectively deliver their programs within a solid but high-level and strategic policy framework. The cornerstones of the contracting policy framework are well defined and basically entail the use of contracting to effectively meet operational and program needs and obtain best value in a fair and open manner, and to meet other national objectives of the government. These principles have

recently been reinforced by Canada's international and internal trade agreements and their related contract dispute resolution mechanisms. Within this policy framework, departments will have the flexibility to achieve good program results, balanced with due process and integrity in contracting. Departments and agencies will be further encouraged to develop implementation tools and processes suitable to their individual requirements and to set performance goals, taking into account the policy framework, as well as their operational and program delivery objectives. Finally, the Treasury Board supports improved contract reporting with periodic overall assessment of contracting performance and priorities, to the extent feasible and practicable within given resources.

Public Works and Government Services Canada's response: Public Works and Government Services Canada is currently working with the Treasury Board Secretariat to review the procurement policy frameworks and responsibilities. Results of these discussions will, without doubt, contribute to a clearer understanding among all stakeholders of responsibilities, expectations, authorities and accountabilities.

Initiatives such as the recent implementation of an automated contracting reporting tool in all departments should also contribute more accurate and comprehensive contracting statistics on a government-wide basis.



### **About the Audit**

### Objective

The objective of our audit was to inform Parliament about the government's contracting performance.

### **Scope and Approach**

We examined the policy and framework responsibilities of the Treasury Board Secretariat and Public Works and Government Services Canada — their performance in setting the framework for government contracting and in providing leadership and direction to the rest of government. These responsibilities derive from:

- section 7 of the Financial Administration Act, which authorizes Treasury Board to act on behalf of
  Cabinet in matters of common administration, including the inherent right of ministers to buy goods and
  services; and
- section 7 of the *Public Works and Government Services Act*, which directs the Minister to plan and organize the provision of goods and services.

We based our examination of the accountability framework on the criteria described on the following pages. Against them we considered information derived from:

- an analysis of the provisions of the policy itself, focussing on the Treasury Board policy documents together with those of Public Works and Government Services and four other departments;
- the findings of internal audit reports dealing with contracting in the government over the last five years and of past audits by the Office;
- testimony and proceedings of the Standing Committees on Government Operations and Public Accounts;
- interviews with officials in Treasury Board Secretariat, Public Works and Government Services Canada, three policy departments and seven line departments.

To examine the results achieved by those working within the policy framework provided by Treasury Board and Public Works and Government Services Canada, we considered the information from the above sources, plus:

- review and analysis of the government's contracting and public accounts data;
- analysis of documents provided by, and discussions with, officials in Correctional Service Canada,
   Fisheries and Oceans Canada, Health Canada, National Defence, Natural Resources Canada, Revenue
   Canada, and Transport Canada; and
- analysis of more than 250 contracts on which four departments made payments of \$69 million in 1995–96.

We did not examine construction, real estate or travel contracts.

### **Criteria and Performance Indicators**

The criteria that we applied are set out below, together with the supporting subcriteria and quantitative results indicators considered. These criteria were derived as follows. The first four, which deal mainly with framework results, are based on criteria promulgated by CCAF-FCVI Inc. Legislative auditors and managers in a number of other jurisdictions have tested and applied these criteria in a variety of situations. They are supported by subcriteria that we have discussed with Treasury Board Secretariat officials and tested in previous audits of administrative policy.

The remaining criteria deal with more operational results. We developed them specifically for this audit, reviewed them with managers and other stakeholders, and agreed on them with Treasury Board Secretariat and Public Works and Government Services Canada. We considered an additional criterion when looking at contracts involving information technology services: the extent to which government contracting protects government information and intellectual property. However, we did not pursue our work to an overall conclusion against this criterion.

Criterion	Subcriteria	Results Indicators
Management direction. The extent to which the contracting objectives of the government are clear, well understood and well integrated into the government's plans, structures, delegations of authority and decision making.	<ul> <li>The extent to which responsibilities are clearly assigned</li> <li>The extent to which performance expectations are clear</li> <li>The extent to which authority (and other resources) are delegated commensurate with responsibility and expectations</li> </ul>	<ul> <li>policy statements</li> <li>mandates &amp; mission statements</li> <li>authority delegations</li> <li>plans and targets</li> <li>prohibitions</li> <li>everyone understands what is expected of him or her</li> </ul>
Monitoring and reporting. The extent to which contracting performance is monitored, reported and acted upon.	<ul> <li>The extent to which monitoring and reporting identifies opportunities to buy smarter</li> <li>The extent to which there is relevant and reliable reporting on the discharge of contracting responsibilities</li> <li>The extent to which there is reasonable review of contracting performance</li> </ul>	<ul> <li>reporting frameworks</li> <li>data definitions</li> <li>data and aggregations</li> <li>interpretations and analyses</li> <li>actions in response to information</li> </ul>
People and working environment. The extent to which the government provides appropriate incentives, sanctions and development opportunities to sustain a skilled and competent contracting work force.	<ul> <li>The extent to which good and poor performance are recognized and responded to</li> <li>The extent to which steps are taken to identify, maintain and improve needed skills</li> </ul>	<ul> <li>assessments of skills and training needs, plans</li> <li>training delivered</li> <li>certifications</li> <li>incentives and sanctions applied</li> </ul>
Other resources and tools. The extent to which contracting processes and tools provided are appropriate to achieve the desired contracting performance.	<ul> <li>The extent to which processes, information resources, standard specifications and conditions help officials and suppliers produce good results</li> <li>The extent to which contracting processes and tools are produced at reasonable cost</li> </ul>	<ul> <li>utility (complaints, assessments)</li> <li>(costs)</li> </ul>

Criterion	Subcriteria	Results Indicators		
Screening. The extent to which contracting screens out requests for goods and services that are unacceptable, unduly expensive, or unnecessary, so that the federal government buys — with integrity — only what it needs.	<ul> <li>The extent to which "needs" are separated from "wants"</li> <li>The extent to which contracts reflect requirements</li> <li>The extent to which restricted or prohibited transactions are detected and prevented</li> </ul>	<ul> <li>Requisitions rejected, advice given (taken and rejected)</li> <li>changes in specifications or source strategy</li> <li>savings achieved</li> <li>prohibited or unauthorized transactions processed (negative)</li> <li>amendment rates (poor specifications)</li> </ul>		
Competition. The extent to which competition (when used) is open, fair and gets good value.	<ul> <li>The extent to which competition is used</li> <li>The extent to which prices are negotiated when competition is not practicable</li> <li>The extent to which competition attracts the best qualified suppliers</li> <li>The extent to which the government treats fairly those who compete</li> <li>The extent to which competition secures savings (or better value)</li> </ul>	<ul> <li>new suppliers attracted</li> <li>turnover of supplier pool</li> <li>number of bidders and bid spread</li> <li>quality assurance reviews</li> <li>rate of complaints and disposition</li> </ul>		
<b>Delivery.</b> The extent to which government contracting delivers what was agreed, when it was agreed, and for the price agreed.	<ul> <li>The extent to which the government gets what it contracts for (in terms of cost, quality and time)</li> <li>The extent to which suppliers get what they contract for</li> </ul>	<ul> <li>payment certifications</li> <li>contractor evaluations</li> <li>amendments</li> <li>contract audit results</li> <li>supplier sanctions and incentive applied</li> </ul>		
Cycle time. The extent to which the government arranges contracts in a timely manner.	<ul> <li>The extent to which cycle time meets user requirements and operational needs</li> <li>The extent to which cycle time relates to value added</li> </ul>	<ul> <li>time from requisition to approva</li> <li>time from approval to tender</li> <li>time from tender to award</li> </ul>		
Administrative costs. The extent to which the federal government arranges and administers contracts at a reasonable cost to all participants.	<ul> <li>The extent to which costs incurred should be monitored and controlled</li> <li>The extent to which costs should be reasonable in the light of performance expected</li> </ul>	<ul> <li>costs to government (direct, overhead, management)</li> <li>costs to suppliers</li> </ul>		

Criterion	Subcriteria	<b>Results Indicators</b>		
Contribution to other objectives. The extent to which contracting contributes to — or does nor undermine — other objectives.	<ul> <li>(Depending on the mechanisms adopted)</li> <li>The extent to which target volumes of business reach designated beneficiaries</li> <li>The extent to which government avoids restricted or prohibited uses of contracts (see screening)</li> <li>The extent to which the government buys goods or services with preferred specifications</li> <li>The extent to which standard terms and conditions are applied</li> <li>The effect of aggregation and disaggregation on supplier groups (see competition)</li> </ul>	<ul> <li>volume of business</li> <li>incidence of prohibited transactions (see also screening)</li> <li>percent application of standard terms and conditions</li> <li>proportion of "total buy" meeting desired specifications</li> </ul>		

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# Chapter 7

**Acquisition Cards** 

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

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# **Acquisition Cards**

Assistant Auditor General: Shahid Minto Responsible Auditor: Trevor R. Shaw

### **Main Points**

- 7.1 Acquisition cards are a recent instrument of purchase in the federal government. The use of cards has grown rapidly since 1991 and continues to grow. During 1996, approximately 20,000 cards were used to acquire \$172 million of goods and services.
- 7.2 The use of cards has made it difficult to apply traditional financial controls, such as segregation of duties. Essential control cannot be achieved if organizations do not monitor and analyze cards, record and match charges, and carry out periodic audits and verifications of card transactions. We found room for improvement in all these areas. In particular, better information and increased use of electronic tools are needed to modernize control over cards.
- **7.3** Although available measurements do not point to serious losses at the present time, the severity and number of problems could increase if organizations do not strengthen control and share best practices. Now is the time for the government to assess the card program for emerging risks and the management control processes that should be applied.



### Introduction

- 7.4 Our 1996 audit of materiel management in the federal government included some preliminary work that identified problems with the use of acquisition cards. We have conducted a separate audit of these cards and report the results in this chapter.
- 7.5 A government acquisition card is a credit card that is used to purchase and pay for goods and services for federal departments and agencies. Organizations issue a card to an employee, but the card account remains the responsibility of the Crown. A department, branch or division of the public service of Canada pays the card account.
- 7.6 Acquisition cards are an instrument of purchase placed in the hands of individual public servants. When they are used, they commit the Crown to an irrevocable obligation to pay. During 1996, cards were used by public servants to make over 615,000 transactions valued at \$172 million
- 7.7 Since the introduction of cards, their use has grown rapidly and continues to grow. In 1992, about 2,000 cards were issued. Today, approximately 20,000 cards are used by public servants in over 70 departments and agencies. The majority of transactions are for small amounts, less than \$150. About 5 percent of card transactions exceed \$1,000 and account for 44 percent of the total dollars spent on cards.
- 7.8 Acquisition cards represent an important change in the way government organizations acquire and pay for goods and services. The Treasury Board officially launched the acquisition

- card program in December 1991 as a government-wide initiative. The use of cards was promoted by the Treasury Board Secretariat as an innovation in keeping with the objectives of Public Service 2000, and with the basic aim of reducing administrative costs and enabling employees to purchase certain goods and services more directly.
- 7.9 Before cards were introduced, employees arranged for small purchases using inefficient paper-driven systems based on numerous purchase orders. Rather than have departments process many purchase orders and pay individual suppliers, the intent was to consolidate purchasing through credit cards and to pay card companies once a month. Several benefits were expected, including shorter procurement times and a reduction in the number of supplier invoices and payments.
- 7.10 Organizations can issue a card to any employee. Cards are used to buy such diverse items as computers and software, tools and hardware, equipment and furniture, office and maintenance supplies, training services, fees and subscriptions, storage services, as well as food and field supplies. According to Treasury Board policy, acquisition cards are not to be used for travel and vehicle operations because other cards are contracted for these purposes. Also, cash advances are not to be obtained using acquisition cards.
- 7.11 Focus of the audit. The objective of our audit was to determine whether there has been appropriate control over the use of acquisition cards. Further details on audit scope and approach can be found at the end of the chapter in the section About the Audit.

Before cards were introduced, employees arranged for small purchases using inefficient paperdriven systems.

# Observations and Recommendations

### Better Control Procedures Needed

7.12 A number of conditions are attached to issuing a card. First, there must be authority to issue and use the card. Second, the card should be issued because it is needed, with a credit limit commensurate with the intended card use. Third, the employee should formally accept responsibility for the card and agree to comply with relevant authorities, policies and procedures. Finally, the employee should be expected to protect the card and use it with prudence and probity.

#### Control varies among organizations

Organizations have authority to 7.13 use cards and have issued administrative policies and procedures. However, we found that control varies among the four organizations we audited, with some weaknesses in basic areas. For example, departmental policies are sometimes inconsistent with Treasury Board policy; acknowledgment forms are not always clear about what employees are agreeing to when they are issued a card; the control duties of card co-ordinators have not been uniformly determined or documented; few organizations have a cross-checking procedure to ensure that when card holders leave or transfer, their cards are promptly cancelled; and few organizations are tracking to ensure that a minimum level of instruction is being given to all card holders.

### Organizations need to analyze card use

**7.14** A decision to issue a card to an employee is made at the discretion of the individual manager. Departments have not

developed guidance to assist in determining the need for cards and what credit limits would be appropriate. Now that cards have reached 20,000 in number, departments need to know whether those possessing cards need them, or whether those who should be using them are doing so. Information has to be obtained to analyze who uses cards, how frequently they are used, and what is being bought. This would help organizations determine if more control risks are being assumed than are necessary to achieve the intended benefits of cards.

# Improved monitoring and analysis are needed

7.15 The use of cards has made it difficult to apply traditional financial controls, such as segregation of duties. For example, individuals can now commit public money, procure and receive goods and services, and then later certify the charges made to their card accounts. Essential control cannot be achieved if organizations do not monitor and analyze card use, record and match charges, and carry out periodic audits and verifications of card transactions. We found room for improvement in these areas.

7.16 Managers sometimes do not exercise second-level review and scrutinize transactions when subordinates certify their own card accounts pursuant to section 34 of the Financial Administration Act. Organizations do not monitor and follow up card accounts that are inactive, or are suddenly used after lying dormant. Departments also need to identify unusual patterns of card use, and to determine whether card practices are improving and whether errors are staying within tolerable limits. Finally, while Treasury Board policy requires departments to carry out internal audits of card use, we identified only ten such internal audits of cards across government since 1995, six of

Essential control cannot be achieved if organizations do not monitor and analyze card use.

which were done recently at the base level within National Defence.

- 7.17 We scanned hundreds of card statements in the four organizations audited and conducted detailed tests of over 260 transactions. Problems observed were lack of evidence of control procedures and incomplete documentation of card purchases, cards being used to make purchases that are restricted by policy, uncertainty as to whether the card was used only by the card holder, no evidence of inventory items being recorded in the inventory management system, and purchases exceeding authority limits.
- 7.18 Control processes also need to be enhanced to prevent or detect improper card use. For example, a recent survey of about 70 entities by the Treasury Board Secretariat shows that 21 cards were reported by departmental card co-ordinators as lost or stolen. Unfortunately, co-ordinators are not necessarily in a position to know accurately how many cards have been lost. We determined from data files for the last six months of 1996 that at least 680 cards were replacement cards. This indicates that cards are lost or damaged at a rate of three percent — more than reported to the Secretariat. Organizations cannot say for certain how many cards have been lost. They need to determine the reasons for replacement cards and track their experience with lost cards.
- **7.19** Finally, data analysis indicates that payments on at least 800 card accounts were past due as of October 1996. Late payment interest totalling \$79,121 was charged to federal organizations between August 1996 and December 1996.
- **7.20** All of the above-noted information signals risks. The available

measurements do not point to significant amounts of damage or loss at the present time. However, with the growing use of cards and hundreds of thousands of highly diversified transactions, problems could go undetected until departments and agencies improve control and reduce the risk of losses in the future.

# Increased use of electronic tools would enhance control

7.21 Given the nature and extent of card use, information becomes key to modernizing control over cards. Organizations have little information readily available to efficiently and effectively monitor the use of cards in terms of identifying unusual transactions and analyzing the pattern of card use (who is buying what, and where). While card use has grown enormously, only seven organizations have any form of electronic information or data interchange with card companies. Of the four departments we audited, only Natural Resources Canada has established electronic data interchange for nearly all of its card accounts. Moreover, new technology offers the opportunity to enhance control over card transactions.

# **Assessing Benefits and Sharing Best Practices**

### Extent of net benefits is uncertain

7.22 Only one (Natural Resources Canada) of the four organizations we audited was comparing its actual use of cards with the potential use of cards and measuring administrative savings that were being achieved. None of the four has determined whether or not economical purchasing is being maintained in the use of cards as part of overall purchasing activity. The Treasury Board Secretariat has not attempted to measure productivity gains or losses from the use of cards.

While the use of acquisition cards has grown rapidly, federal entities have not been sufficiently prepared to manage the risks.

# Organizations could benefit from sharing best practices

7.23 Our audit findings suggest that organizations could benefit from the sharing of best practices and from guidance on what constitutes effective control over cards. We observed people learning in isolation from each other without a mechanism to transfer and multiply best practices.

### Conclusion

7.24 Our audit found that, while the use of acquisition cards has grown rapidly, federal entities have not been sufficiently prepared to manage the risks arising from card use. Much can be done to reduce risks and to pursue more rigorously the benefits of card use.

7.25 Although there do not appear to have been serious losses at this time, the severity and number of problems could increase if organizations do not modernize and strengthen control over the use of cards. Now is the time for the government to assess the card program for emerging risks and the control processes that should be applied.

7.26 Departments and agencies should review their strategies and plans for the use of acquisition cards. Each organization should analyze the use of cards and decide what controls would best meet its needs and risks.

7.27 The Treasury Board Secretariat and Public Works and Government Services Canada should continue to work together with other federal organizations, card companies, and suppliers to improve the card program and strengthen control.

Royal Canadian Mounted Police's response: The RCMP has, this past year, conducted a workshop for division

acquisition card co-ordinators. A National Co-ordinator for the Acquisition Card Program has been identified. The National Co-ordinator is responsible for ensuring that monitoring and control procedures over the issuance of cards are carried out by the division acquisition card co-ordinators.

Liaison between Materiel and Services
Branch and Finance Branch personnel is
also in place to ensure that RCMP policy
is consistent with Treasury Board policy
relative to the use of acquisition cards. A
consolidated billing procedure for
acquisition card purchases has been
implemented to facilitate timely payment
of monthly invoices. The card program
will be supported further through
increased emphasis on the Quality
Assurance Review program currently
being developed for the Finance and
Supply Directorate areas of responsibility.

Department of National Defence's response: DND, like Natural Resources Canada, also has in place an automated accounts payable system for processing monthly electronic invoices from MasterCard, the principal acquisition card used in this department. By June 1997, all DND acquisition card invoices will be processed electronically.

Although DND has not yet quantified the administrative savings specifically attributable to the use of acquisition cards, the benefits are clearly there. The use of acquisition cards results in a single monthly, departmental electronic invoice containing thousands of charges paid with one cheque. If the cards were not used, this same purchasing activity would have resulted in hundreds of manually processed cheque requisitions. As well, we have frequently received informal feedback from our managers that acquisition cards have allowed them to purchase faster, smarter and more economically.

DND's current departmental policies are consistent with and amplify those of the Treasury Board. However, we agree that

certain improvements to our control and reporting processes may be warranted to reduce the potential risk of misuse or abuse of the cards.

Natural Resources Canada's response: Natural Resources Canada is an advanced user of acquisition cards and electronic data interchange and is committed to continuous improvement of control processes. Our internal audit group, who assisted the Office of the Auditor General in its review, indicates that our controls are reasonable. As noted in the chapter, the Department is a source of emerging best practices and agrees with the recommendation that departments should share their best practices.

Public Works and Government Services Canada's response: Public Works and Government Services Canada, as the common service provider for contracting card services, will continue to improve our services to our clients.



# **About the Audit**

### Objective

The objective of our audit was to determine whether there has been appropriate control over the use of acquisition cards in the federal government.

### Scope and Approach

We audited the card activity of four entities — National Defence, the Royal Canadian Mounted Police, Fisheries and Oceans Canada, and Natural Resources Canada. These organizations account for about 54 percent of current card purchases. We reviewed policies and systems, available studies and internal audit reports, and conducted detailed tests of card transactions within these four entities. We did not conduct tests to determine if an economical price was obtained in card purchases.

We also reviewed certain functions of the Treasury Board Secretariat and Public Works and Government Services Canada as the central agencies responsible for card policy and for contracting card services. In addition, we analyzed government-wide data as made available by the Treasury Board Secretariat and by one of the banks that issues government acquisition cards. We did not audit the use of travel cards and vehicle operating cards.

### **Audit Team**

Brian Brisson John Cathcart Nathalie Chartrand Wing Shing Ma Tony Shaw Gordon Stock

For information, please contact Shahid Minto, the responsible Assistant Auditor General.

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# Report of the Auditor General of Canada to the House of Commons

Chapter 8
Department of Finance – Equalization Program

**April 1997** 



Report of the Auditor General of Canada to the House of Commons

Chapter 8
Department of Finance – Equalization Program

This April 1997 Report comprises 10 chapters and a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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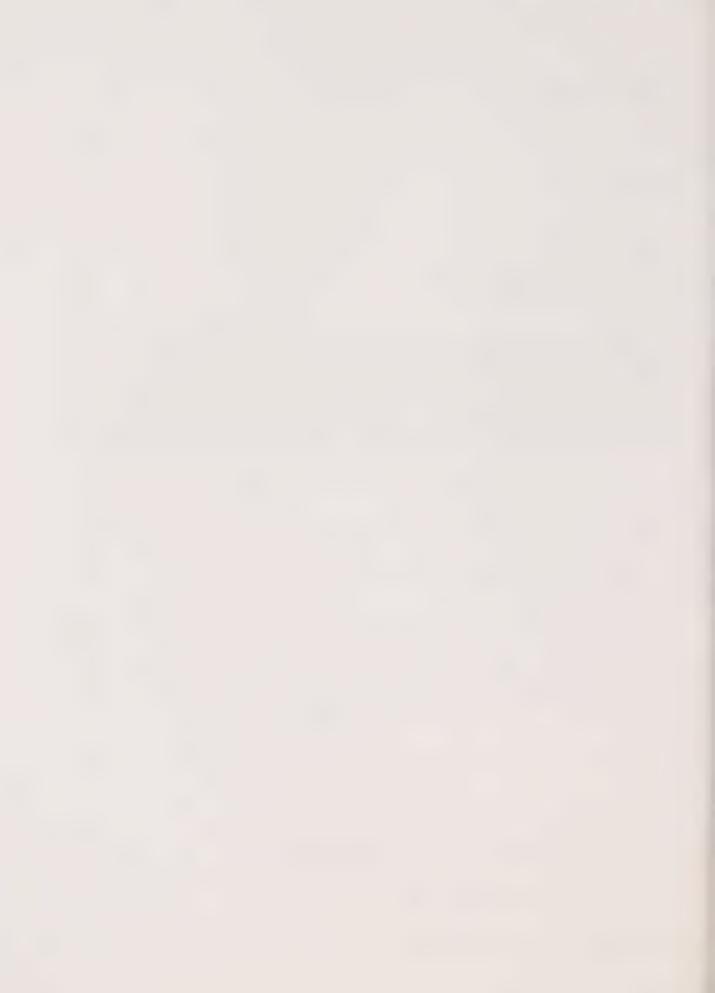
# **Chapter 8**

Department of Finance — Equalization Program

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

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Assistant Auditor General: Ron Thompson Responsible Auditor: Jeff Greenberg

# Department of Finance — Equalization Program

### **Main Points**

An essential element of citizenship [in the Canadian federation] must be relatively equal access to basic government services, irrespective of place of residence.

Royal Commission on the Economic Union and Development Prospects for Canada, 1985

- 8.1 This fundamental principle is still the driving force behind the federal government's 40-year-old equalization program, which in 1996–97 transferred \$8.5 billion in unconditional funds to the relatively poorer provinces. Equalization is a responsive program that requires continuing attention and refinement if it is to stay true to its objective.
- 8.2 Since its purpose is to equalize provincial revenue-raising capacity, the key to its success rests on how well the Representative Tax System, the basis for this program, reflects provincial tax systems. As a result, the program must adapt to the constant evolution of these systems. The legislation requires that the program be renewed at least every five years, providing the federal government, in conjunction with the provinces, with a built-in opportunity to keep the program current. We found that this process works, but that it could be more effective if the federal-provincial committee on equalization began its review of outstanding issues earlier in each new equalization period.
- **8.3** We believe that there must be a solid basis for knowing how and why the program should change. In this regard, we suggest that there should be guiding principles for the construction of the Representative Tax System and for aspects of the ceiling and floor, two provisions that limit fluctuations in the payments.
- **8.4** Because final decisions about this program rest with Parliament, we believe that the Department of Finance should make a greater effort to educate Parliament, and the public in general, about how this very complex program works. We also believe that it could use Parliament more effectively, soliciting advice from a wider circle of interested parties, rather than relying almost exclusively on the advice of a committee of federal and provincial officials.
- 8.5 We found that the administrative process by which entitlements are calculated and payments made is reasonable. However, we noted that outstanding balances owed by provinces to the federal government currently bear no interest, resulting in an additional benefit to the provinces of about \$38 million in 1995–96. We believe that the government should review its policy of interest on outstanding balances owed to, or by, the federal government.
- 8.6 We were frequently reminded by officials that the equalization program is important to the Canadian federation. However, this program is only as good as the processes that allow it to keep pace with the shifting sands of provincial tax systems. We believe that the current program and its processes for change work reasonably well, but they could be improved. This is both a challenge and an opportunity for the government, and the Parliament it serves.



### Introduction

- 8.7 Transfer payments to the provinces have been described as the "glue" that holds the country together. They constitute the second-largest federal spending program, exceeded only by interest charges on the federal debt. In 1996-97, federal cash transfers to the provinces amounted to an estimated \$23 billion, or 15 percent of total federal spending. In addition to these cash payments, the federal government provided the provinces with approximately \$13 billion in tax transfers — that is, the cash value of tax points ceded by the federal government to the provinces to enhance their capacity to finance social services.
- 8.8 At \$8.5 billion, payments under the equalization program, which is administered by the Department of Finance, account for over one third of total cash transfers to the provinces. Since the program was first adopted in 1957, all provinces but Ontario have qualified for equalization transfers at one time or

- another. Currently, seven provinces all except Ontario, Alberta and British Columbia receive equalization transfers. Exhibit 8.1 shows the growth, and the distribution by province, of equalization payments over the past decade.
- 8.9 Equalization payments are unconditional transfers to the provinces; that is, the receiving provinces are free to use the funds as they please. Payments are made on the basis of a formula that estimates the capacities of provinces to raise revenues by taxes and other levies, and compares them with a standard. Any province whose fiscal capacity is lower than the standard is entitled to equalization payments sufficient to raise its capacity to the standard.
- 8.10 The principle of making equalization payments has been enshrined in the Constitution since 1982. Specific authority for the equalization program is provided under Part I of the Federal-Provincial Fiscal Arrangements Act. The program is normally renewed every five years. The present program

Exhibit 8.1

**Total Equalization Entitlements** 

1986-87 to 1996-97 (\$ Millions)

	1986–87	1988–89	1990–91	1992–93	1994–95	1996–97
Newfoundland	678	839	919	886	950	956
Prince Edward Island	138	177	194	168	190	188
Nova Scotia	620	835	949	908	1,059	1,129
New Brunswick	643	771	868	870	917	904
Quebec	2,942	3,393	3,627	3,589	3,868	4,017
Manitoba	471	795	914	872	1,079	1,039
Saskatchewan	285	457	531	490	413	259
Total	5,775	7,267	8,002	7,784	8,476	8,493

Numbers may not add due to rounding

Data Source: Department of Finance

"An essential element

of citizenship must be

relatively equal access

to basic government

services, irrespective

of place of residence."

came into effect in 1994 and is due to expire in 1999.

### **Historical Context**

An essential element of citizenship [in the Canadian federation] must be relatively equal access to basic government services, irrespective of place of residence.

Royal Commission on the Economic Union and Development Prospects for Canada, 1985

- **8.11** Canada is a vast country with a political structure composed of two orders of government, each sovereign within its own sphere. The responsibilities and authorities that each order possesses are set down in the Constitution of Canada. These include responsibility for providing public services as well as authority to raise revenues to do so.
- 8.12 Even as far back as 1867, there was recognition that the balance between spending and revenue-raising capacities was uneven and that the provinces would need substantial help from the Dominion government to carry out their financial responsibilities. This help came in the form of annual cash transfers, or subsidies as they were usually referred to at that time. Chief among these were per capita grants, fixed at 80 cents per resident of each province up to a maximum of 400,000 persons.
- 8.13 The terms of these arrangements were written into the *British North*America Act now called the

  Constitution Act (1867) and the subsidies agreed upon were declared to be "in full Settlement of all future Demands on Canada." If the provinces chose to increase their expenditures materially, it was intended that they obtain their additional revenues entirely from the revenue sources allotted to them.

- 8.14 As permanent as these financial arrangements were intended to be, they simply could not stand the test of time. The social responsibilities of the provinces that sprang up in the first part of the 20th century, and the need for revenues to meet them, became a growing source of discontent between the federal and provincial governments.
- **8.15** In 1937, the Royal Commission on Dominion-Provincial Relations (Rowell-Sirois Commission) was established to assess this discontent and to make recommendations to address it.
- 8.16 One of the recommendations the Commission made in its 1940 report was that the Dominion government make annual "national adjustment grants" to the needy provinces, "to make it possible for every province to provide for its people services of average Canadian standards" without having to resort to excessive taxation. The grants would be unconditional and the provinces would be free to decide how to spend them, or whether to use them to reduce provincial tax rates.
- 8.17 World War Two suspended any decision to implement the Commission's recommendations. Responding to the wartime emergency, all provinces agreed to relinquish to the federal government their personal and corporate income taxes for the duration of the war in return for certain guarantees and payments related to these revenue losses. These "tax rental" agreements were the precursors of the federal-provincial tax sharing and collection agreements that exist today.
- 8.18 At the end of the war, in spite of significant objections by the premiers of Ontario and Quebec, the federal government continued its dominant fiscal position created by the wartime tax rental agreements. The basis for its insistence on this role in the economy was the emerging

prominence of the Keynesian argument that a strong central fiscal policy was needed to promote economic stability and full employment. In return for this taxing power, the federal government put into place a system of payments of unconditional per capita grants to all the provinces except Ontario and Quebec, who refused to participate.

- **8.19** In 1951, the tax rental agreements were extended for another five years. This time, Ontario was also brought into the scheme, leaving Quebec as the sole hold-out.
- **8.20** In 1957, the equalization program that Canadians know today came into being as part of the federal-provincial fiscal arrangements legislation. That legislation included the following financial provisions:
- continuation of the tax rental agreements, with a provision for a federal tax abatement to those provinces unwilling to participate;
- stabilization payments to protect provinces against unusual year-over-year declines in revenue due to economic events; and
- equalization grants to each province to bring its per capita yield from personal and corporate income taxes and succession duties to the level of the two richest provinces (at the time, Ontario and British Columbia).

# Primary Objective of the Equalization Program

### Comparable revenue-raising capacities

**8.21** Section 36(2) of *The Constitution Act (1982)* sets down the fundamental objective for the equalization program. It states:

Parliament and the Government of Canada are committed to the

- principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.
- **8.22** The main objective of the program, based on how the government has interpreted this clause, is that after equalization payments are made, no province should have a revenue-raising capacity below a specified standard.
- **8.23** This does not mean that the revenue raising capacities of all provinces should be the same. If that were true, then payments would have to be based on the revenue-raising capacity of the wealthiest province.
- 8.24 Nor does it mean that receiving provinces should have comparable per capita revenues. The intention of the program is to raise the *capacity to tax* on a per capita basis, not the actual per capita revenues collected by taxation. The only way the capacity to tax and the actual revenues collected on a per capita basis would be comparable is if all provinces had identical tax systems.
- 8.25 This objective was written into the 1982 revisions to the *Constitution Act*, but it had already been accepted in 1957, when the program was first adopted. The 1957 agreement specified that any province would be entitled to equalization payments if the per capita revenues it could collect from a common set of taxes were lower than the revenues this same set of taxes would generate if applied to some standard or average of the provinces. At that time, the set of taxes included only three revenue sources personal income tax, corporate income tax and succession duties.
- **8.26** In 1967, the revenue base was expanded to be more representative of

provincial tax systems. This new base, known as the Representative Tax System (RTS), included a total of 16 separate revenue sources. Subsequently, municipal revenues were also brought into the formula. Today, the RTS consists of 33 separate revenue sources, ranging from income taxes to insurance premiums, from property taxes to payroll taxes, and from sales taxes to "sin" taxes.

8.27 In 1957, the standard against which all provinces were to be compared was the average tax base from the three revenue sources of the two wealthiest provinces, Ontario and British Columbia. Ten years later, the standard was changed to an average of all 10 provinces. In 1982, it was changed again to an average of 5 provinces (British Columbia, Saskatchewan, Manitoba, Ontario and Quebec), where it stands today.

# Secondary Objectives of the **Program**

8.28 In addition to the primary objective of the program, which has its roots in the Canadian Constitution, the Department of Finance has established a number of secondary objectives for the program. Three of these — sustainability, stability and accountability-responsibility — are discussed below.

#### Sustainability

- **8.29** The concept of sustainability implies that if a program is to remain financially viable, its long-term payout ought not to exceed some norm that the government considers acceptable.
- **8.30** With the energy crisis of the 1970s and the resulting significant growth in equalization payments, the federal government faced a sustainability problem that led to two major changes in the program. The 1982 revisions established a

ceiling on expenditures and changed the standard from a 10-province average to a five-province average, which excluded resource-rich Alberta and the four relatively poor Atlantic provinces. Both changes were made to ensure that the program costs would no longer fluctuate as widely as they had in the mid-1970s.

**8.31** The ceiling prevented the percentage growth in equalization payments from exceeding the percentage growth in gross national product (GNP).

### **Stability**

- **8.32** The concept of stability implies that the payouts of the program to individual provinces will be free of large and destabilizing fluctuations.
- 8.33 The concern about stability stems mostly from provincial concerns that, while the federal government had included safeguards to prevent its spending from getting out of control, there was no cushion to protect provinces against sharp declines in their transfers. The result was the introduction of a set of "floors" to dampen year-over-year reductions in equalization entitlements.

### Accountability-responsibility

- **8.34** While the Department of Finance is accountable to Parliament for this program, there is no such relationship between the federal government and its provincial counterparts. The provinces do not have any obligation to the federal government to account for their use of equalization funds, nor does the federal government have any obligation to the provinces other than to comply with the terms of the program legislation and section 36(2) of the Constitution.
- **8.35** Nevertheless, the federal government does have a responsibility to keep the provincial governments fully informed about factors that could affect

equalization, and to consult with them in a meaningful way on the quinquennial renewal of the program (the next is in 1999).

**8.36** These "accountabilityresponsibility" relationships with Parliament and the provincial governments are examined later in the context of the reasonableness of the quinquennial review process.

# The Workings of the Equalization Formula

- **8.37** The concept of equalization is essentially simple: to measure each province's capacity to raise revenues, and to compare that capacity with some provincial average or standard. Provinces with capacity below the standard receive payments to bring it up to the standard.
- 8.38 The basic principle used to calculate payments is also quite simple. Using personal income tax as an example, suppose that the revenues from the personal income tax for all provinces total \$40 billion. If these revenues were based on taxable income of \$200 billion, then the average tax rate would be 20 percent.
- 8.39 The calculation of revenue-raising capacity and comparison with the standard is done on a per capita basis. For example, suppose Province A has an average taxable personal income (known as the per capita tax base) of \$30,000, whereas the standard (the five-province average) is \$35,000. Using the average tax rate, Province A could raise \$6,000 per capita from personal income tax; the five-province standard would be \$7,000. This would leave a gap of \$1,000 to be equalized. If Province A had a population of 1 million people, it would be entitled to an equalization payment of \$1 billion for personal income

taxes. The same process is followed for each of the other 32 revenue sources. All the differences against the five-province standard, both positive and negative, are added and the net figure determines whether the province will receive equalization (for a mathematical description of the program, see Exhibit 8.2).

- 8.40 Calculating equalization for a revenue source like personal income tax is straightforward because the base taxable income — is essentially common across all provinces. For many of the other revenue sources, however, the bases are not so straightforward. For example, some provinces calculate their payroll taxes (which are used primarily for health benefits) on a business's total payroll, while others tax a portion above a certain threshold, and still others charge no tax at all. Yet for purposes of the RTS, the base chosen must be common across all provinces.
- 8.41 Where various provinces tax a revenue source differently, it is necessary to arrive at a common way of estimating the tax base in order to calculate the equalization payments. In some areas there is general agreement among the provinces on the way Finance does this, while in others no consensus exists. Finance nevertheless has to establish a base despite the lack of consensus. Examples include property tax (see paragraphs 8.66-8.76) and resource taxes on, for example, lumber and oil (see paragraphs 8.60-8.64).
- **8.42** To further complicate the program, a ceiling was introduced in 1982 to meet the federal concern that equalization transfers not grow at a faster rate than the economy. At the same time, a set of "floors" was established at the request of the provinces to ensure that the

transfers to any one province would not fall sharply from one year to the next.

**8.43** These complexities — the difficulties in calculating the bases for some taxes, and the existence of a ceiling and the floor provision — take this program from one of conceptual simplicity to one of practical complexity that leaves many observers bewildered.

### **Focus of the Audit**

8.44 Our audit focussed on the systems and practices that the Department of Finance has in place to assess performance, to keep Parliament informed and to administer the equalization program. Further details on the audit scope, objectives and methodology are found at the end of the chapter in the section About the Audit.

# Observations And Recommendations

# Achieving Comparable Revenue-Raising Capacities

8.45 The key element in the equalization formula and its successful operation is the Representative Tax System (RTS). The RTS is a hypothetical tax system that is intended to be representative of the actual systems of the separate provinces. Its purpose is to provide an accurate and comparable measure of the relative ability of provinces to raise revenue to support public services.

# Principles for a representative tax system

**8.46** Exhibit 8.3 shows that the equalization program has achieved

#### Exhibit 8.2

How Equalization Entitlements Are Calculated A province's equalization entitlement from a revenue source is determined according to the following equation:

$$E_a = T_b(B_r - B_a)P_a$$

Where:

 $E_a =$  Equalization entitlement to province A

 $T_b = T_b$  The average tax rate on revenue source B for all provinces

 $B_r = \frac{1}{2}$  The per capita base for source B of the five "representative" provinces

 $B_a =$  The per capita base for source B of province A

 $P_a =$  The population of province A

Using the example in paragraphs 8.38-8.39,

 $T_b =$  The 20 percent tax rate on income

 $B_r = \frac{1}{2}$  The five-province per capita personal income tax base of \$35,000

 $B_a =$  The per capita income in Province A of \$30,000

 $P_a =$  The population of 1 million in Province A

Substituting these values into the equation yields equalization payments of \$1 billion for revenue source B.

This is an illustration for one hypothetical revenue source only. In fact, there are 33 separate revenue sources in the equalization formula, comprising essentially all tax and non-tax levies imposed by provincial and local governments. Entitlements from each are calculated as above and aggregated to determine a province's overall entitlement.

comparability in the RTS for seven of the ten provinces. However, to know whether this is a fair reflection of its performance, the Department has to be satisfied that the RTS meets a number of criteria. Specifically, the RTS ought to be comprehensive, representative, appropriately categorized and accurate.

- Comprehensive. To be comprehensive, the RTS would include all revenue sources used to support public services. Partial coverage of the revenue sources used would yield a biased picture of relative fiscal capacities, unless the sources excluded were uniformly distributed across all provinces.
- Representative. To be representative, the RTS would use definitions of tax bases that reflect closely the tax structure actually used by the provinces. This is based on the premise that the RTS reflects what governments actually do.
- Appropriately categorized. To be appropriately categorized, all the items in the RTS that make up a category, or revenue source, would have common characteristics and the ability to be taxed at similar rates.
- Accurate. To be a reliable measure of the tax base, the data used to measure

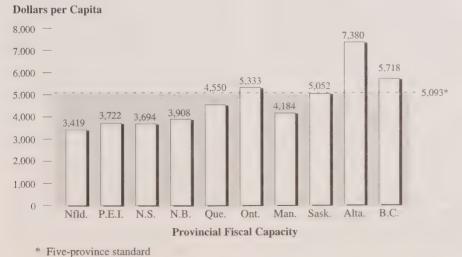
the various tax bases must be as accurate as possible.

- **8.47** These criteria emerged from our review of documents and discussions with officials. While the Department currently uses such criteria for its assessment of the RTS, nowhere are they explicitly set out.
- 8.48 The Department of Finance should formalize a set of principles to guide its review of the Representative Tax System.

**Department's response:** The criteria that the Auditor General has outlined above are used by the Department to guide its review of the RTS.

- **8.49** To review the Department's efforts to keep the RTS consistent with the foregoing criteria, we selected five revenue sources sales taxes, lottery revenues, resource taxes, property taxes and user fees which demonstrate how the revenue bases can change and the need to keep them constantly under review.
- **8.50** We briefly discuss the first three, but focus more on property taxes and on user fees. Our findings are based on a review of departmental files as well as discussion with both federal and provincial officials.

The equalization program has achieved a measure of comparability for the provinces.



Equalization \_\_\_\_

Federal

Exhibit 8.3

Equalization

**Provincial Capacity and** 

Fiscal Year 1996-97

Data Source: Department of Finance

8.51 The Department has already flagged two of these sources — sales taxes and lottery revenues — where changes might have to be made for the 1999 program renewal. Resource taxes and property taxes are also open for discussion, but user fees are not part of the current federal-provincial discussions for the 1999 renewal.

# Treatment of sales taxes and lottery revenues in the representative tax system

- **8.52 Sales taxes.** Sales taxes represent an area where the base used in the RTS may no longer be representative of the tax structure used by all the provinces.
- 8.53 As a result of an agreement they reached in early 1996 with the federal government, Nova Scotia, New Brunswick and Newfoundland will replace their current sales tax systems with a value-added tax beginning 1 April 1997. The new tax will have the same base as the federal GST, and these two taxes together will be administered as a single tax called the Harmonized Sales Tax (HST). The rate for the combined federal-provincial tax was set at 15 percent. Quebec already uses a GST base for its general sales tax. This change means that four provinces who account for about a third of Canada's total population will be using a common sales tax base that is significantly different from the one currently used in the RTS.
- 8.54 Because the RTS is intended to be consistent with the principle that tax bases reflect the tax structure used by the provinces, there is a need to review the way the sales tax base is currently measured. This means deciding whether there is a large enough proportion of the provinces using the GST base to warrant a change in the existing RTS base.

- **8.55** Lottery revenues. Lottery revenues are another area in which the practices of the provinces in the last few years have changed to a point where the current RTS may no longer be appropriate.
- 8.56 Lottery revenues have been treated as a separate revenue source in the RTS since 1977, with gross revenues from the sale of lottery tickets constituting the lottery base.
- 8.57 This arrangement worked well in the 1970s and 1980s, when most provincial lottery operations were similar. In recent years, however, the provincial gaming sector has been significantly transformed. In addition to selling conventional lottery tickets, provinces today are also operating video games, casinos, bingo, break-open tickets (instant tickets, a portion of which can be removed to reveal whether the player has won a prize) and other games of chance. The existing RTS base for lottery revenues does not cover most of these newer gaming activities. Revenues from these newer forms of gaming are treated differently for equalization purposes, depending on how they are organized in the various provinces. For example, where a casino is operated by a provincial lottery corporation, profits generated by the casino are equalized under the lottery revenues source. However, if the casino is operated by a government department, the gross revenues of the casino are equalized under the miscellaneous revenue source in the RTS. Similar inequities arise in the treatment of revenues from other games.
- **8.58** The way lottery revenues are captured in the RTS is another illustration of how the RTS can become less representative of the provincial taxing policies if it is not regularly reviewed and updated.
- **8.59** The Department is aware of the need to update the way sales taxes and

lottery revenues are currently captured and is consulting with the provinces to do that.

Need to address provincial concerns about treatment of resource revenues

**8.60** Resource taxation. Resource taxation is a tax area where the ground is always shifting, and illustrates why the RTS must be continually reviewed to keep it as optimal as possible.

8.61 The resource revenue bases in the RTS are measured on the basis of value or volume of production. Ideally, they would be measured on the basis of "economic rent", or the value of a resource over its cost of production (including a normal rate of return on the associated investments). Rent is the true measure of taxable potential, since by definition it consists of value that can be taxed without affecting production. Because natural resources in different locations can differ significantly in quality and production costs, rents associated with them can also differ significantly. These differences are not necessarily captured by the value or volume of production. The existing RTS formula tries to correct for this in part by breaking down resources into separate categories according to their expected proportions of economic rent. Thus, there are separate sources for new oil, old oil, heavy oil and mined oil.

8.62 Still, conditions in petroleum markets are under continuous change, as are technologies and methods of extracting oil. Existing classifications of revenue sources and bases for oil can rapidly become outdated. For example, Saskatchewan argues that the current equalization formula lumps together oil sources with much different profit potentials. The resulting national average tax rate (per barrel of oil produced)

overstates the extent to which the low-profit oil can be taxed. Royalties generated from low-profit oil may not be sufficient to compensate for the loss in equalization payments associated with production of that oil. In other words, production of such oil may cause a province to lose more in equalization transfers than it gains in oil revenues.

8.63 Quebec has expressed similar concerns about the base for forestry revenues. Forestry revenues include income from logging, plus royalties, licenses, rentals or fees related to the exploitation of forestry resources. The tax base used in the RTS for forestry revenues is cubic metres of wood cut in Crown lands, as reported by Statistics Canada. Quebec argues that trees are not a homogeneous product; spruce grown in Ouebec is not equivalent in value to the cedar grown in British Columbia. Since the revenue yield of forestry products is related more to the value than the volume of production, the current RTS base for forestry revehues may exaggerate the fiscal capacity of Quebec and other provinces with large volumes of relatively low-value wood products.

**8.64** The federal government is aware of provincial concerns about the way resource revenues are covered in the RTS and of the need to remain consistent with the principle that revenue sources be appropriately categorized.

8.65 The Department of Finance should continue to review resource taxes in the Representative Tax System to determine whether it can find a way to accommodate provincial concerns in this area, while remaining consistent with the principle that revenue sources like resource taxation be appropriately categorized.

Resource taxation is an area where the ground is always shifting. Department's Response: The Department expects to address this issue as part of the current Equalization renewal process.

Need to review the current property tax base

- **8.66 Property taxes.** Property tax is the revenue category that produces the second-largest amount of entitlements in the equalization program. In 1996–97, property taxes accounted for nearly \$2 billion, or 22 percent of total equalization payments. Only personal income taxes produce a larger amount.
- 8.67 Property taxes were not brought fully into the RTS until 1982. They had first been recognized as a separate revenue category in 1973, when municipal property taxes for school purposes were brought into the equalization formula. As the Economic Council of Canada said in a 1982 report, one reason municipal property taxes had been left out of equalization when the RTS was first adopted was "that there was no suitable measure available to determine the base for the real property tax."
- **8.68** The difficulties of finding a suitable base for the property tax have not diminished over the past three decades. They are conceptual as well as practical.
- 8.69 On the practical side, comparable data on real property values across (and even within) provinces have always been difficult to obtain. The problem stems from the nature of the property tax base. and more specifically from the fact that the base needs to be assessed, rather than observed. For most revenue sources, the tax base consists of the volume or value of transactions over a specified period. For the personal income tax, the tax base is the income earned by the taxpayer over the calendar year; for cigarettes, the base is the number of cigarettes sold; for natural gas, it is the volume of gas

- produced. In the case of real property, the base is a stock of non-homogeneous items, only a small portion of which changes hands each year. The value of the stock must therefore be estimated or assessed. Assessments inevitably involve judgment, and judgments can differ.
- 8.70 This inherent problem in the valuation of real property is further compounded by the fact that assessment practices differ from one class of property to another, from one province to another, and even from municipality to municipality. In addition, assessments are infrequent and use different base years, so that assessments are not comparable even within the same municipality. The government therefore lacks a common measure of property values that would allow for interprovincial comparisons.
- 8.71 On the conceptual side, there is no agreement on the appropriate base for taxing property. In most provinces, legislation requires that real property be assessed at its market value. If the practical difficulties were resolved, that is, if more reliable and uniform assessment practices existed across Canada, market value could provide a common standard for property values among provinces.
- 8.72 In the past, however, the federal Department of Finance has rejected the use of market value as the property tax base because it is not satisfied that market assessment is the appropriate base for measuring the capacity to tax real property. Even where market value assessments exist, the Department argues, municipalities do not have common standards for taxing properties. In addition, market values are volatile, primarily because of fluctuating land prices. Thus, changes in market values do not necessarily reflect changes in fiscal capacity.

- 8.73 The current property tax base measures relative fiscal capacity with an estimate derived from the value of buildings combined with proxies for the value of residential, commercial and agricultural land. These proxies take into account differences in income and in urban density. The intention of the measure is to approximate the value embodied in property that authorities can actually tax.
- 8.74 Whether it actually does this, however, is in dispute. Some provinces argue that, to a considerable degree, the weights used in the formula to distribute property values across provinces are arbitrary, and that the formula is not sufficiently sensitive to changes in property values. Moreover, the formula does not seem consistent with the basic RTS principle that the tax sources used should closely represent what provinces actually tax. No province levies property taxes on the basis used in the equalization program. The property tax base in every province is the assessed value of the property, normally based on market values.
- 8.75 The development of an appropriate property tax base in the RTS has absorbed much time and effort of federal and provincial officials over many years. In more recent years the efforts of the Department have focussed on fine-tuning the weights in the proxy base. We believe that work on the property tax base needs to continue, but with greater emphasis on developing a base that is more representative of provincial practices in this area.
- **8.76** Recent developments in provincial policies for property tax assessment suggest that the practical difficulties may be less daunting in the future. Earlier this year, Ontario (which accounts for nearly half of the property

tax base) announced that, beginning in 1998, it will adopt a province-wide system that assesses properties at market value in a common base year and regularly updates assessments thereafter. A similar system is already used in British Columbia.

8.77 The Department of Finance, in consultation with the provinces, should review the current property tax base in the equalization formula to determine whether it reflects provincial capacities to generate revenues from this source.

**Department's response:** The Department expects to address this issue as part of the current Equalization renewal process.

# A need to re-examine the treatment of user fees

- **8.78** A user fee is the money directly collected from individuals, households and business entities for goods and services they receive from government. Examples include water and sewer charges, transit fees, tolls for the use of roads or bridges, and fees for the use of parks, swimming pools, libraries and other public facilities.
- 8.79 With public debts at record high levels and public tolerance for tax increases extremely low, governments at every level are resorting to alternative revenue sources such as user fees to meet their financial needs. Provincial and local government receipts from the sale of goods and services doubled from \$6 billion in 1984 to \$12 billion in 1994. How these revenues are treated in the equalization formula can have a significant effect on overall equalization payments and the entitlements accruing to the receiving provinces.
- **8.80** User fees imposed by the provincial governments have been part of the equalization formula since the introduction of the RTS in 1967. Similar fees imposed by municipalities were

No province levies property taxes on the basis followed in the equalization program.

Arguments can be marshalled on either side of the question of whether user fees should be equalized.

brought in with the 1982 renewal. Currently, they are included under the "miscellaneous" revenue category of the RTS.

- 8.81 The base for user fees consists of total revenues generated from all the sources in the RTS except resource revenues. In other words, the relative capacities of provinces to raise revenues through user fees are assumed to be the same as their relative abilities to raise all non-resource revenues.
- 8.82 Should user fees be included in the RTS? Arguments can be marshalled on either side of this question. The case for including them rests principally on their similarity to ordinary taxes. According to this view, the way provincial governments raise revenues, as distinct from how much they raise, should not have a bearing on equalization entitlements.
- **8.83** Also supporting their inclusion is the argument that leaving them out could distort provincial fiscal policies. That is, equalizing taxes and not user fees provides a fiscal incentive for provinces who receive equalization payments to raise revenues by taxation rather than by charging user fees.
- 8.84 The case against equalizing user fees emphasizes their similarity to prices charged in private markets. Like commercial prices, user fees represent compensation to providers of goods or services. Taxes, by contrast, are payments to government, for which no service is provided directly in return.
- 8.85 The distinction entails more than a mere semantic difference. The purpose of equalization payments is to enable provinces to provide "reasonably comparable levels of public services at reasonably comparable levels of taxation." To the extent that users of

- government-provided goods and services pay for them, the capacity to provide such goods and services is directly related to the demand for them. In other words, the users of a "user pays" service also generate the capacity to provide the service. Hence, according to this view, there is no need to equalize that capacity. Governments need revenues only for those services that they want to provide free or to subsidize: it is that capacity that needs to be supported.
- **8.86** Looking at this question another way, fees used to finance "user pays" activities are not available to finance general government services. There is no revenue source, as such, to equalize. This view holds that the revenue sources that ought to be equalized are those used to finance what have been viewed traditionally as public services, namely, services for which the public does not pay directly.
- The same conclusion can be 8.87 reached by proceeding from some basic principles underlying fiscal equalization. Equalization payments exist because provinces differ in their fiscal capacities — their ability to raise revenues to provide public services. In the absence of equalization payments, these interprovincial fiscal differences would lead to different fiscal treatment of individual Canadians, depending on their province of residence, because wealthier provinces would be able to provide more services than poorer provinces with the same level of taxation. Equalization payments help reduce these differences.
- 8.88 However, differences in the fiscal treatment of individuals across provinces can arise only to the extent that there are differences between the taxes individuals pay and the benefits they receive. If there were no difference, as is the case when the service is paid for by an appropriate fee,

there would be no need for transfers aimed at equalizing differences.

8.89 The Department of Finance should re-examine the present treatment of user fees to determine whether it is consistent with a comprehensive Representative Tax System and is therefore an appropriate revenue source to be included in the equalization program.

**Department's response:** The Department will raise this issue with provinces as part of the current Equalization renewal process.

## Maintaining a Program That Is Sustainable for the Federal Government

**8.90** As we have noted, the government has established a number of secondary objectives, and constraints, that are important in the overall delivery of the program.

#### Choosing the base year for the ceiling

8.91 Sustainability and the ceiling. How much the federal government can afford is very much a political question that deals with choices it must make between one program and another. However, once a decision has been made to establish a ceiling, the nature and use of the government's criteria for implementing it is an audit issue.

8.92 Since 1982, the equalization formula's ceiling provision has limited the cumulative growth of total equalization payments to the cumulative growth of GNP from a base year, currently 1992. If the growth of equalization entitlements from the base year to any fiscal year exceeds the growth of GNP over the same period, entitlements are scaled back to the level of growth in the GNP. The ceiling came into play for three years, 1988–89 to

1990–91, as a result of very strong economic growth in Ontario over that period, and did so again in 1993–94.

When the ceiling comes into play, entitlements to all receiving provinces are scaled back on an equal per capita basis. This lowers their per capita transfers from the amount that the five-province standard would have generated had the ceiling not been in place. The effect of the ceiling, therefore. is to lower the equalization standard. The impact is greatest on the receiving provinces whose revenues are closest to the standard (currently Ouebec and Saskatchewan), because their per capita entitlements are smaller than those of the other receiving provinces vet their reduction on a per capita basis is the same.

8.94 When the ceiling was first introduced in 1982, there had been considerable growth and volatility in equalization entitlements. The ceiling, along with the change to the five-province standard introduced at the same time, was a means of protecting the federal government against sharp increases in payments (as had frequently occurred in the 1970s) without mid-period revisions to the formula.

8.95 The base-year for the ceiling was changed in each of the three renewals of the equalization program after 1982, except for the most recent renewal in 1994. Each time, the effect of the change was to lower the ceiling. Specifically, as shown in Exhibit 8.4, the ceiling fell from 1.34 percent of GNP in 1982 to 1.24 percent of GNP in 1987 to 1.17 percent in 1992.

**8.96** While recipient provinces have complained that these reductions reflect deliberate efforts by the federal government to reduce its own financial burden, our review suggests that the ceiling reductions were probably

How much the federal government can afford is very much a political question.

Since 1982, a ceiling limits the cumulative growth of total payments to the cumulative growth of GNP from a base year.

incidental rather than by design. In each renewal of the ceiling, except for the 1994 renewal, the year chosen as the base was the first year of the next equalization period. Since the government could not know with any certainty what the equalization payout would be for that year in relation to the size of the economy, it could not know how stringent, or how generous, the ceiling would turn out to be. In other words, this way of proceeding leaves the federal government with no protection in the initial year and with an unknown degree of protection in subsequent years.

8.97 We raise this matter because there seems to be no framework or rationale to guide Finance in deciding on a base year for the ceiling. The result is that neither the federal government nor the provinces can assess the impact of any change until after it is introduced. If a set of principles were established for deciding how and whether to change the base of the

ceiling, it would be easier for both levels of government to assess its impact in advance, and would therefore assist them in their budget planning.

8.98 On the premise that the GNP-based ceiling continues into the next renewal period, the Department of Finance should identify a set of principles for choosing an appropriate base year for the equalization ceiling and use those principles in subsequent renewals.

Department's response: The Department expects to address the design of the ceiling as part of the current Equalization renewal process.

# Maintaining a Program That Provides Stability for the Provinces

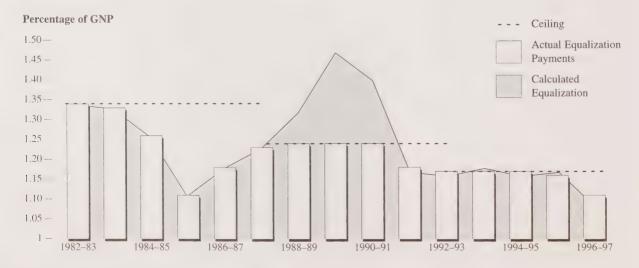
Application of the "floor" provision

**8.99 Stability and the floor provision.** To balance the ceiling, a floor

Exhibit 8.4

Equalization Entitlements as a Percentage of GNP – Entitlements with and without Ceiling

1982–83 to 1996–97



Data Source: Department of Finance

was also introduced in 1982 to ensure that each province receiving equalization payments would not suffer a year-over-year reduction of more than 5, 10 or 15 percent, depending on its revenue-raising capacity. The 95 percent floor applies to provinces whose fiscal capacity is below 70 percent of the national average (Newfoundland and Prince Edward Island at present). The 90 percent floor applies to provinces whose fiscal capacity is 70 to 75 percent of the national average (New Brunswick). And the 85 percent floor applies to provinces with a fiscal capacity greater than 75 percent of the average (Nova Scotia, Manitoba, Saskatchewan and Ouebec). The floor thus provides greater protection to provinces whose fiscal capacity before equalization is lowest.

**8.100** A feature of the existing floor provisions that is of particular concern to the recipient provinces is that a small change in a province's estimated fiscal capacity can result in significant changes to its entitlements by moving the province into a level with a different floor protection.

To illustrate, in October 1994 the 8.101 fiscal capacity of New Brunswick for 1992–93 was estimated at 75.12 percent of the national average, up from 74.22 percent in March 1994. As a result, the associated level of protection fell from 90 percent to 85 percent, lowering the payments to the province by \$48.3 million for fiscal year 1992–93. In March 1995, New Brunswick's fiscal capacity was re-estimated at 74.96 percent, thereby increasing its entitlement again by \$48.3 million. Similar swings have been experienced in the past by Saskatchewan and Prince Edward Island.

**8.102** As with the ceiling, we raise this issue because the way the floor provision

works makes it difficult for provinces close to one of the floor levels to plan their budgets, since their transfers can move up and down significantly until a payment year is finalized.

8.103 The Department of Finance should review the equalization floor to even out its protection to recipient provinces.

**Department's response:** The Department expects to discuss the mechanics of the Equalization floor during the current renewal process.

# **Remaining Accountable**

**8.104** The equalization program is a federally legislated program for which the Department of Finance is accountable to Parliament. This means that Parliament can expect the following from the Department:

- a clear statement of the objectives of the program;
  - clear performance expectations; and
- credible and reasonable reporting of results.

# Accountability to Parliament for the program

8.105 On an annual basis, little information is regularly provided to Parliament on the workings of the equalization program other than through the annual appropriations process and the Public Accounts. The Department of Finance's Part IIIs have not reported to Parliament on the way the program works or on its performance. Nor is there any indication provided as to where parliamentarians can obtain such information.

**8.106** For the five-year cyclical renewal of the program, Parliament is presented with legislative proposals anytime from a

A feature of the floor provision that is of concern to the provinces is that a small change in a province's fiscal capacity can result in significant changes to its entitlements.

Parliament ought to be consulted, and could be an effective instrument in shaping a federal program like equalization.

few months to a few weeks before approval is required.

**8.107** There are precedents for involving Parliament before the program's renewal; an example is the *Bank Act*. Legislative proposals are preceded by a white paper, which is presented with enough time for parliamentarians, in committee, to seek input from concerned Canadians about the proposed changes.

8.108 Equalization legislation, however, is different from the *Bank Act* because of the provincial dimension. Because of that, much of the discussion on revisions to the program is part of a process often referred to as "executive federalism", in which federal and provincial officials engage in discussions behind closed doors. We are concerned that those to whom the government is ultimately accountable are often left out of the deliberations until well after federal and provincial officials and the ministers involved have agreed to the terms of the revisions.

8.109 We believe that the process needs to be opened up to facilitate wider participation in the consideration of changes to such a fundamental program. Many interested parties, including some leading academics, have given considerable thought to this program and we believe their views could be useful. The government tried this approach once, in 1981, when it established the Parliamentary Task Force on Federal-Provincial Arrangements (Breau Committee), which focussed on all fiscal transfers including equalization. Its report, Fiscal Federalism in Canada, stands today as one of the best public assessments of Canada's fiscal situation.

**8.110** Whether there is a full review of fiscal federalism such as the Breau Committee's, say every 10 years, or more

effective involvement of Parliament in reviewing equalization every five years, is up to the government. Parliamentarians could be consulted after federal and provincial officials have finalized their work on proposals for program change and before federal and provincial finance ministers meet. In any case Parliament, which has to authorize this program, needs to be consulted and, through the committee process, could be an effective instrument in shaping a federal program like equalization.

8.111 The Department of Finance should ensure that Parliament is consulted in a meaningful way on the periodic renewal of equalization.

**Department's response:** The Department is prepared to respond to any request from Parliament in this regard.

#### Relationship with the provinces

8.112 Twice a year, the federal government provides the provinces with booklets that show the detailed calculations behind the equalization payments. They also inform the provinces of any issues that could affect changes in the payments, such as:

- tax bases;
- population adjustments; and
- changes to the Financial Management Series (the database maintained by Statistics Canada from which revenue information for the program is obtained).
- 8.113 Also, there are regular meetings of a committee on federal-provincial fiscal arrangements, chaired by the Assistant Deputy Minister of the Federal-Provincial Relations Division of the federal Department of Finance. In addition, there is a permanent subcommittee on equalization that begins its intensive review of the program approximately two

Regular meetings of federal-provincial committees are the major way this program is assessed.

and a half years before each renewal of the Federal-Provincial Fiscal Arrangements Act. This process, according to the Department of Finance, is the major vehicle for assessing the program.

- **8.114** In one sense, this is an effective way to review a program such as this, because it is done on a regular basis and involves more than the officials who run the program. But it does have two shortcomings, in our opinion.
- **8.115** The first is that it is a closed process with no mechanism to inform legislators at either the federal or provincial level, or any other interested observers, about the subjects discussed or the outcomes of the review.
- 8.116 The second shortcoming is the limited time frame normally allowed for the review process. At the beginning of every new five-year period, there are outstanding issues from the previous period that have to wait for two and a half years to be considered again. In our review of the RTS, we identified at least two issues that have been pending since long before the last renewal: resource taxes and property taxes. Federal and provincial officials are well aware that these are difficult issues to resolve and in the fall of 1996, when the equalization subcommittee began its intensive work leading to the 1999 renewal, these same two issues were put on the table again.
- **8.117** In our opinion, these unresolved issues ought to have been addressed immediately after the last renewal instead of waiting two and a half years to be considered again.
- **8.118** A more timely review of the program by officials would also better accommodate the need for a more meaningful consultation of Parliament: the

sooner the federal-provincial review process is completed, the more time the federal Parliament can have to consider the results of the process prior to each periodic renewal.

8.119 The Department of Finance, through the federal-provincial equalization subcommittee, should deal with outstanding equalization issues on an ongoing basis.

**Department's response:** The Department's view is that outstanding issues are being addressed by the Equalization subcommittee on an ongoing basis.

# **Administration of the Program**

- **8.120** We expected to find that the Department of Finance would have a means to ensure that equalization entitlements are appropriately calculated and paid in accordance with relevant legislation and regulations, and the process managed with due regard to economy and efficiency.
- **8.121** We reviewed the results of our annual financial audits of the equalization program to help us determine whether these criteria are being met. We also looked at issues surrounding the number of equalization entitlement calculations, the underlying data and the treatment of underpayments and overpayments.
- 8.122 We carry out annual audit work on the equalization program as part of our audit of the Summary Financial Statements, which are published in the Public Accounts. Our work in this area found that entitlements and payments are calculated correctly, using the required data, and are made in accordance with the Federal-Provincial Fiscal Arrangements Act and the regulations. We also noted that overpayments to provinces are properly accounted for and collected in

accordance with the Act and the regulations.

## Calculating the equalization entitlement

8.123 The regulations provide specific instructions on the number and timing of equalization entitlement calculations. Essentially, there are eight entitlement calculations for each equalization year, starting with an initial estimate just prior to the start of the fiscal year. The final equalization calculation is generally made 30 months after the end of the fiscal year, because the data used in the calculation are not finalized until then.

8.124 In the early 1990s the Department established a standard calculation schedule to improve administrative efficiency. Calculations are now made twice a year, in October and February, with all open fiscal years (those not yet finalized) calculated at the same time. Each set of entitlement calculations is prepared by three people over a one-month period.

**8.125** We analyzed the variability of equalization entitlement estimates from the initial estimate to the final calculation for the fiscal years 1987–88 to 1995–96. Exhibit 8.5 shows the variability in the

program as a whole. The exhibit shows that each interim calculation tends to move the estimate closer to the final amount, though from the fifth estimate to the eighth and final estimate there was little percentage difference. At the provincial level the trend was the same but there was a greater degree of variability, particularly in the provinces close to the equalization standard.

8.126 The receiving provinces use the entitlement information for provincial budget planning and for ministerial briefings. Consequently, they would like to receive more frequent calculations. At the same time, the variability analysis indicates that the number of calculations could be reduced. However, given the small preparation cost to the Department, the current calculation schedule appears to be a reasonable compromise between provincial needs for information and the Department's need for administrative efficiency.

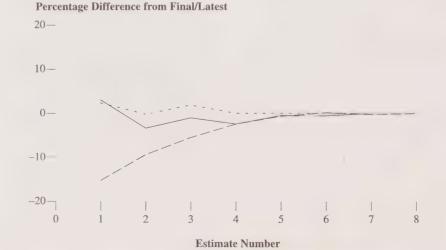
#### Reasonableness of the data

8.127 The underlying data used for the final calculation of equalization entitlements come from a certificate prepared by the Chief Statistician of Canada. Until it receives this certificate, Finance uses estimates of revenue and

### Exhibit 8.5

Percentage Difference from Final/Latest Calculation – Receiving Provinces

Data Source: Department of Finance



base data that come from a number of sources, principally the provinces (revenue) and Statistics Canada (base data).

- 8.128 Provincial revenue estimates are reviewed by the Department of Finance for reasonableness. Finance analysts monitor changes in provincial budgets and tax policy. The estimates are compared with previous years, and significant differences not accounted for by changes in budget and policy are followed up with the provinces.
- 8.129 Finance uses the latest available data for determining tax bases. These data come either from the latest mini-certificate, an interim document provided by Statistics Canada, or from other more recent sources. Finance reviews the mini-certificate and other data for reasonableness. Data used for the final certificate are also reviewed for reasonableness. Any changes to the final certificate are made through letters of amendment prepared by Statistics Canada.
- 8.130 The provinces also receive copies of the entitlement calculations, including details of the underlying data. While there is no formal requirement that they review the data, the provinces will normally contact the Department or Statistics Canada if they note unusual items.

# Asymmetrical treatment of underpayments and overpayments

- **8.131** We found no evidence to indicate a systemic bias in the calculation of entitlement estimates. Calculations are based on the latest available information, which means that overpayments can occur as easily as underpayments.
- **8.132** The regulations stipulate the way Finance must deal with adjustments resulting from revised calculations of entitlements. These depend on when an

entitlement calculation is made. Other programs that form part of federal-provincial fiscal arrangements, such as the Tax Collection Agreements, may have an impact on the way equalization adjustments are handled. For example, an overpayment in one program may be permitted to be offset against underpayments in another program.

- **8.133** In general, adjustments to the current year's equalization entitlements made as a result of revised calculations before the end of the fiscal year are handled by increasing or decreasing the remaining payment stream in that fiscal year. Subsequent adjustments resulting from revised entitlement calculations are handled differently, depending on whether the adjustment identifies an underpayment or an overpayment.
- 8.134 Underpayments are generally made up to the province immediately. Overpayments, however, are generally repaid by the provinces in equal monthly installments over the remaining months in the fiscal year (estimates made in October), or in equal monthly installments in the succeeding fiscal year (estimates made in February). The amount of overpayment to be recovered is subject to per capita limits and there are also special rules for overpayments related to census coverage adjustments.
- 8.135 The current treatment is asymmetrical, given that the federal government pays the provinces immediately for underpayments whereas provinces have the option of repaying an overpayment over an extended period up to a year for normal overpayments, and a minimum of five years for the 1991 census adjustments. These overpayments are treated as non-interest-bearing loans to the provinces. The total amounts of such loans to the provinces may also include overpayments related to other financial

The free use of federal overpayments is a benefit not necessarily shared equally by all of the receiving provinces.

programs such as the Tax Collection Agreements, Fiscal Stabilization and Revenue Guarantees.

- **8.136** Exhibit 8.6 indicates the outstanding amount of equalization-related loans to the provinces since 1983–84. The increase in balances from 1992–93 onward occurred largely as a result of census adjustments.
- 8.137 Provinces are advanced money by the federal government on a "good faith" basis, using the best available data at the time the estimate is made. Furthermore, because the potential impact of subsequent adjustments is not known at that time, it would be unreasonable to expect the provinces to put aside some of the equalization funds they receive in case they have been overpaid. Allowing provinces to repay unexpected overpayments over a period of months helps provincial cash flows.
- 8.138 However, there is an implicit cost to the federal government represented by the interest cost of carrying additional debt. To illustrate, we estimate that the additional interest cost to the federal government to carry the outstanding loan balance during 1995–96 was approximately \$38 million. This calculation takes into account recoveries

during the year and uses the average interest rate on federal debt in 1995–96 of 7.34 percent.

- This additional benefit to the 8.139 provinces of the free use of federal funds is not necessarily shared equally by all of the receiving provinces. In any particular fiscal year, some provinces may have been overpaid while others may have been underpaid. The provinces that have been underpaid do not get the free use of federal funds. In fact, in preparing their fiscal plans these provinces, through own source methods, have likely had to adjust for the lower amounts received on an interim basis and have incurred their own costs, since the federal government does not pay interest on underpayments.
- **8.140** While the current process may be easier to manage administratively, there are built-in inequities, both between the federal and provincial governments and among provinces.
- 8.141 Any review of this process would have to take into account that, while this is a federal program, it has significant implications for the provincial governments. Discussions would need to look at the impact on not only the federal government but also the provincial governments. In addition, the impact on the other financial programs that are

Exhibit 8.6

Equalization-related Loans to the Provinces



Data Source: Department of Finance

included in loans to the provinces would have to be considered.

- **8.142** One method of reducing these inequities would be to recognize the carrying costs of these loans by applying interest charges to both underpayments and outstanding overpayments.
- 8.143 The Department of Finance, in conjunction with the provinces, should review the asymmetrical treatment of overpayments and underpayments and determine whether interest should be paid on such balances, keeping in mind the impact on other financial programs.

**Department's response:** The Department expects to address this issue as part of the current Equalization renewal process.

# Conclusion

- 8.144 The equalization program is a dynamic program that requires continuous attention and refinement. With its primary objective of ensuring that provinces have the fiscal capacity to provide reasonably comparable levels of public services at reasonably comparable levels of taxation, the only certainty about the program is that it has to change if it is to keep up with the constantly evolving systems of taxation that run across provincial and municipal jurisdictions in Canada.
- **8.145** The conclusions of this audit are consistent with the *Report of the Royal Commission on the Economic Union and Development Prospects for Canada:*

...equalization is a vital feature of the Canadian federation. While there are many reasons to be proud of what Canadians have achieved in this area, there is room for improvement.

- 8.146 In the wisdom of those who initiated the program, there is a requirement that the program be re-enacted every five years. This gives the program recipients (provinces), the administrators (federal government), and the legislators (Parliament) the regular opportunity to assess the program's performance in a meaningful and open way to ensure that it continues to contribute to the social fabric of Canada. It was in the context of this continued need for a meaningful, open assessment to keep the program current that we conducted this audit.
- **8.147** Indeed, for 40 years the equalization program has been one of the mainstays in contributing to the principle that all Canadians should have access to reasonably comparable levels of public service at reasonably comparable levels of taxation. Virtually all who have looked at this program, ranging from parliamentary committees to royal commissions, have pronounced it one of the main successes of the federation.
- **8.148** Our assessment was no different. We found a program that, on the whole, is well managed. We also found that the Department of Finance takes good advantage of the five-year review process to ensure that the program evolves for the better. Nevertheless, we did identify some areas where we believe improvements could be made, particularly as the Department undertakes the current review leading up to the 1999 renewal.
- 8.149 Finally, we believe that the Department of Finance ought to devote more effort to its relationship with Parliament. Parliament is the legislator for this program and the body to whom the Department and Minister are accountable. In our view, this relationship could be used to the advantage of the Department and for the betterment of the program.

Virtually all who have looked at this program, ranging from parliamentary committees to royal commissions, have pronounced it one of the main successes of the federation.



# **About the Audit**

## Scope

The audit focussed on the operations of the equalization program, which is delivered by the Department of Finance. We did not look at this program in the context of other transfers to the provinces, specifically the Canada Health and Social Transfer program.

# **Objectives**

The objective of this chapter is to explain to parliamentarians and to Canadians in general how the program works, and to report the findings of our comprehensive audit, which looked at compliance with all relevant authorities, financial management and controls, and value for money.

The first two components of this audit — compliance and financial management and controls — were begun in conjunction with the audit of the Summary Financial Statements of the Government of Canada. The audit was extended to cover the frequency of entitlement calculations, the reasonableness of the data, and the asymmetry between overpayments and underpayments.

For the value-for-money component of the audit, we focussed on two activities:

- the efforts of the Department to assess the program's performance and make adjustments when appropriate; and
- the efforts of the Department to keep Parliament informed about the way program operates and its performance.

# Methodology

In auditing the Representative Tax System, we did not audit all 33 revenue sources. Rather, we selected five key revenue sources — sales taxes, lottery revenues, resource taxes, property taxes and user fees — all of which demonstrate how the revenue bases can change and the need to keep them constantly under review.

#### **Audit Team**

David Willey Basil Zafiriou Paul Zind

For information, please contact Jeff Greenberg, the responsible auditor.

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# Volume 1 – April 1997

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# Report of the Auditor General of Canada to the House of Commons

Chapter 9
Foreign Affairs and International Trade Canada –
Financial Management and Control

# Report of the Auditor General of Canada to the House of Commons

Chapter 9

Foreign Affairs and International Trade Canada – Financial Management and Control

This April 1997 Report comprises 10 chapters and a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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# **Chapter 9**

Foreign Affairs and International
Trade Canada — Financial
Management and Control

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

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Assistant Auditor General: David Rattray Responsible Auditor: John Hitchinson

# Foreign Affairs and International Trade Canada — Financial Management and Control

# **Main Points**

- 9.1 Since our 1994 audit, Foreign Affairs and International Trade has continued to improve financial control in areas where problems had previously been identified, specifically the collection of rent from employees and control of money advanced to employees. Financial training has also been improved. While progress has been made in improving basic financial systems, more remains to be done, and an attitude of cost awareness and stewardship needs to continue to be encouraged throughout the Department.
- 9.2 The \$25 fee added to the cost of each passport issued for recovery of consular costs was based initially on incorrect cost information. Subsequent to our audit, the Department undertook a new calculation of costs. Although this recalculation identified a number of cost increases and decreases, no adjustment to the consular fee appears necessary.
- 9.3 The Bureau of Physical Resources has introduced a more businesslike approach to managing property in the Department. However, in some areas control over spending on property maintenance remains weak. Large amounts have been spent on renovating and repairing official residences when heads of mission changed, without the missions and the Bureau together clearly establishing the requirements. The Bureau has not developed an overall financial plan for senior management review that presents likely annual expenditures and revenues, and alternative funding strategies for dealing with the uncertainties inherent in capital projects abroad. Information systems do not yet adequately support the property management function.
- 9.4 The Department has achieved global desk-to-desk communications with the implementation of its Secure Integrated Global Network (SIGNET); however, it has proved to be a greater task than originally envisioned. A new Chief Information Officer (CIO) has been established to be accountable for consolidating the plans and budgets for all information technology expenditures in the Department and recommending priorities. The financial information system was not used in a consistent way for budgeting IT expenditures across the Department.
- 9.5 The Foreign Service Directives (FSDs) have not changed since our last audit. However, recent initiatives to review these directives from the perspectives of tax, complexity and appropriateness could simplify the FSDs. The Department's ability to analyze and provide information on FSD costs has improved; however, the shared management structure for FSDs is not functioning as effectively as it could. The management of travel under the Foreign Service Directives has improved over the past two years.

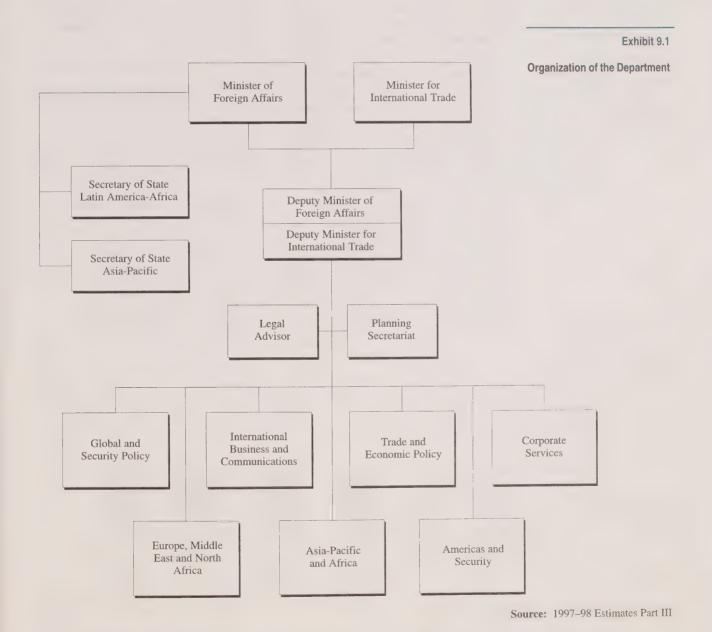


# Introduction

#### Mandate of the Department

9.6 The mandate of Foreign Affairs and International Trade Canada can be summarized as the conduct of Canada's international relations, the promotion of international trade and the provision of assistance to Canadians abroad.

- 9.7 In the government's Foreign Policy Statement of February 1995, three key objectives were set for foreign policy:
- the promotion of prosperity and employment;
- the protection of Canada's security, within a stable global framework; and
- the projection of Canadian values and culture.



Foreign Affairs and International Trade Canada – Financial Management and Control

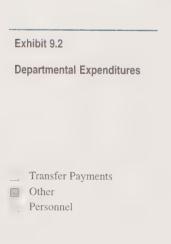
#### Organization

- 9.8 The Department has two ministers: one for Foreign Affairs and one for International Trade. It also has two Secretaries of State: one for the Asia-Pacific region and one for Latin America and Africa. A departmental organization chart is shown in Exhibit 9.1.
- 9.9 The Department represents
  Canada abroad through a network of 129
  missions and 33 offices in 107 countries.
  Departmental headquarters is in Ottawa.
  In addition to its own programs, the
  Department provides administrative and
  operational support to other departments
  that have programs abroad, such as the
  Canadian International Development
  Agency, Citizenship and Immigration
  Canada, and National Defence.

#### **Departmental resources**

9.10 The Department's Main Estimates for 1996–97 provide for expenditures totalling \$1,377 million. The Department's expenditures reached a peak of \$1,565 million in 1994–95. Since then, expenditures have declined to \$1,356 million in 1995–96.

- 9.11 The major components of the Department's expenditures in 1995–96 were personnel-related expenses, transfer payments and other expenditures (see Exhibit 9.2). Personnel-related expenses are primarily salaries and payments under the Foreign Service Directives. Transfer payments are largely membership payments to international organizations, such as assessed shares for UN peacekeeping operations. Other expenditures include mission operating costs, capital expenditures, transportation and communications.
- 9.12 The Department employed 7,759 full-time equivalents (FTEs) in 1995–96, excluding those of the Passport Office. Of these, 2,410 (31 percent) were located at headquarters, and 5,349 (69 percent) were abroad. The Department has a total of 1,024 Canada-based staff and 4,325 locally engaged staff working at missions abroad (see Exhibit 9.3).
- 9.13 Other government departments employ a further 538 Canada-based staff abroad, bringing the total number of Canadian government employees working abroad to 5,887. Of these, 1,740 are working on the programs of Foreign Affairs, 1,837 are working on the



The Department

represents Canada

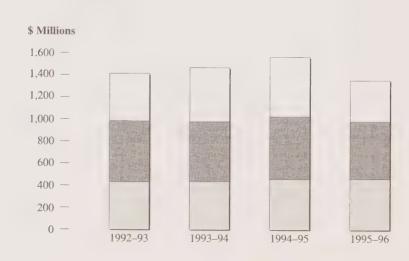
abroad through a

network of 129

offices in 107

countries.

missions and 33



Source: Foreign Affairs and International Trade Canada

programs of other government departments, and 2,310 are employees of Foreign Affairs providing common support services.

#### Focus of the audit

9.14 The purpose of this audit was to examine whether the improvements we noted in our 1994 Report have been sustained since that time. Further details on the background and scope of our work are presented in **About the Audit** at the end of the chapter.

# Observations and Recommendations

# **Financial Management**

Some previously identified problems have been addressed

9.15 Shelter shares. The Department has improved its collection of shelter shares (rent from employees). In December 1995, the level of unpaid rent was substantially lower than the \$200,000 owing in December 1993. However, because the Foreign Service Directives still permit a number of payment options, shelter share collection remains complex. The Department has informed us that it plans to simplify collection by deducting centrally about 95 percent of shelter shares from foreign service allowance payments.

#### 9.16 Accountable advances.

Substantive improvements have been made in reducing the level of overdue advances to employees (see Exhibit 9.4). These improvements are largely a result of the Department's monitoring and vigourous collection efforts.

**9.17** Comptrollership. Subsequent to our 1994 audit, the Department and the Treasury Board Secretariat undertook a

study, conducted by Consulting and Audit Canada, of comptrollership in the Department. Several senior managers from the Department, the Treasury Board Secretariat and the Office of the Auditor General were interviewed for the study. and the findings and recommendations were reported in March 1995. The study made a number of recommendations for improving comptrollership in the Department, with an action plan covering six months, one year, and the longer term. The Department has acted on the recommendations and has focussed on ensuring that financial controls, such as those for travel claims, are functioning effectively. It improved financial training for heads of mission and increased the number of courses available to staff on financial matters. It is also establishing a departmental comptrollership council as a forum for discussion of issues related to financial management and control.

Year-end expenditure analysis is lacking

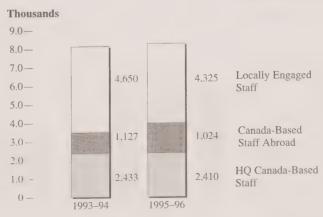
**9.18** Under the current system, the Department's Executive Committee

The Department has improved its collection of shelter shares (rent from employees).

Substantive improvements have been made in reducing the level of overdue advances to employees.

Exhibit 9.3

Foreign Affairs Staff Profile



Source: Foreign Affairs and International Trade Canada

# Foreign Affairs and International Trade Canada – Financial Management and Control

Managers do not systematically analyze year-end expenditures and compare them with original budgets for variances.

initially allocates budgets to functional and geographic bureaus, with any changes from the previous year well communicated. The geographic area managers then allocate budgets to missions according to historical levels. However, there has not been a comprehensive review of the levels for a number of years. Some incremental adjustments are made on a continuing basis, and others have been made concurrently with expenditure reduction exercises. A mid-year budget review exercise takes place with a view to preventing shortages or lapsing of funds at year end.

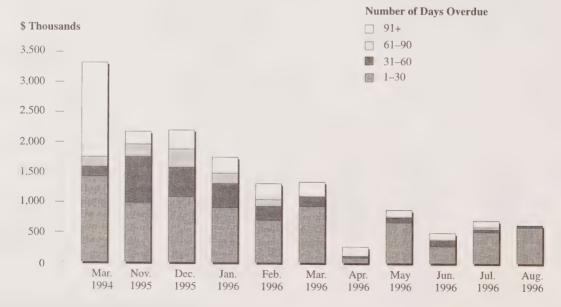
9.19 We examined the budgetary control exercised at headquarters and at missions. The Department has the accounting and management systems in place to ensure that budgets are not overspent. However, geographic area managers do not systematically analyze year-end results of expenditures by object,

such as repair and maintenance, telecommunications and purchase of equipment, and compare them with original mission budgets for variances. As well, missions themselves often do not analyze their year-end results to explain variances with original budgets. One result is that budgets are unrealistic or contain errors that can go undetected. For example, one geographic area arbitrarily increased the budget of a mission by \$600,000 through a "technical adjustment". At the mid-term review, the mission decided to return the money, as it was not needed, nor had it been requested. We could find no documentation to explain the adjustment.

9.20 The Department is moving toward allocating its resources at the departmental level on a functional basis, according to its lines of business. Financial and information systems will have to be developed to support these

Exhibit 9.4

Overdue Advances



Source: Foreign Affairs and International Trade Canada

lines of business so that costs are known and can be related to results achieved.

9.21 Area managers and mission administrative officers should analyze year-end expenditures by object and explain significant variances. These analyses should be used in establishing subsequent budgets.

Department's response: The Department supports this recommendation. Beginning with fiscal year 1996–97, the Department will ensure that significant variances in planned expenditures are reviewed at year's end. Processes appropriate to the new Planning, Reporting and Accountability Structure will be developed to relate these reviews to resource allocations.

#### The costing model has been improved and used

- 9.22 In our 1994 Report, we noted that Foreign Affairs and International Trade was developing a costing model for defining costs by program activity. The Department has made substantial progress in refining the model.
- 9.23 Although we did not conduct a detailed audit of its underlying methodology, the model has been generally accepted by senior departmental management as well as other government departments with operations abroad. Officials informed us that the model was useful during the departmental Program Review exercise, as it made visible the origins of a number of program activity costs that were not available from the financial system.

## The recovery of consular costs was based on incorrect financial information

**9.24** As part of meeting its Program Review targets, the Department obtained approval to recover the cost of providing

consular services. In August 1995, the Department calculated an annual cost for consular services of \$48 million. Approximately \$12 million was to be recovered through various other charges. To recover the remaining costs of \$36 million, the Department established a \$25 consular fee that was added to the price of each passport issued. The \$36 million includes \$10.4 million made up of depreciation of buildings (\$1.7 million) and the borrowing cost of capital for buildings and land (\$8.7 million). Together, these amounts comprise 29 percent of the consular costs to be recovered.

- 9.25 The Department's calculations of depreciation and the borrowing cost of capital were based on a global estimate of the fair market value of its properties. This is not in accordance with the Treasury Board "Guide to the Costing of Outputs". Historical cost should have been used. The \$25 consular fee was proposed by the Department to the Treasury Board, which approved it in October 1995. In its analysis of the Department's proposal, the Treasury Board Secretariat did not address the issue of using a global estimate of fair market value as opposed to historical costs.
- 9.26 Departmental officials told us that fair market value was used because historical costs were not available. However, we found that in most cases, the Department did have some information on historical costs of properties. If departmental data on historical costs had been used as the basis for depreciation and borrowing cost of capital, the cost of properties would have been \$602 million rather than the \$3 billion estimated based on fair market value. The total cost of the consular program would then have been reduced by approximately \$9 million. This means the consular fee being charged to

Accurate cost information is essential to sound managerial decision making.

passport holders would have been about \$19, rather than \$25.

- 9.27 After we informed the Department of our findings, officials began an extensive recalculation of consular costs. This recalculation reduced the costs attributable to property. It also resulted in the identification of a number of other costs that should have been included initially, but were not. The Department's recalculations indicate that the net effect is that consular costs remain close to the original amount of \$36 million. The result is that no adjustment appears necessary to the consular fee. Although we could not audit the accuracy of each revision made by the Department, its revised approach to the identification of costs was more appropriate.
- **9.28** Accurate cost information is essential to sound managerial decision making. We are concerned that control over the initial identification of costs was inadequate, and resulted in the need for so many subsequent adjustments.
- 9.29 The Department should validate the results of its costing exercises, particularly when these will be used in pricing decisions.

There is still a need to reinforce an appreciation of costs and an attitude of stewardship.

Department's response: The Department agrees that accurate information is essential in establishing costs for pricing decisions. For that reason, it refined its costing model last year and submitted its methodology and output for external review. This year, it established a unit to conduct activity-based accounting. Finally, the Department has proposed to re-cost the consular program every year. This will be available for review by the Auditor General.

## Continued improvements in cost awareness and stewardship are needed

- 9.30 In our 1994 audit, we commented on the need for more cost awareness and concern for public funds. We found several areas of improvement. At the missions, more emphasis is being given to financial management issues. The profile of the mission administrative officers (MAOs) has been raised, and help is available for MAOs who seek it. Program Review cuts have created an environment that focusses managerial attention on improving financial management and controlling costs.
- **9.31** In our work at missions, we saw instances where staff had taken action to reduce costs and manage resources more efficiently.
- In one mission, staff had implemented a computerized control system that automatically controls and monitors the physical plant of the chancery and automatically regulates climate control during silent hours. Staff estimate the savings in heating at about \$250 per day.
- A head of mission decided to reduce staff housing costs. The mission replaced and renegotiated several leases at an estimated annual saving of \$140,000.
- One employee combined business with personal travel to Canada using his vacation travel entitlement. This saved the travel costs that would otherwise have been incurred to conduct work in Canada.
- **9.32** However, there is still a need to reinforce an appreciation of costs and an attitude of stewardship in the Department. Following are some examples that illustrate this need.
- In one instance, not following normal purchasing practices because of insistence on ordering non-standard furniture resulted in an additional cost of

\$22,900. The living room furniture was purchased for \$31,000, while available standard-issue furniture for representational purposes provided by headquarters was priced at \$8,100. This residence was used infrequently for hospitality.

- One mission had been retaining excess used furniture in leased warehouse space, at a cost of US \$3,500 per month. This furniture, with a total estimated market value of US \$1,000, would never again be useful to the mission.
- One mission leased a house for an employee that exceeded authorized space guidelines by 132 percent. Staff quarters closer to the guidelines were available on the market at a potential saving of almost \$37,000 per year. The head of mission informed us that the lease will not be renewed when the occupant leaves the mission.

#### Internal review continues to be active

- 9.33 In our 1994 Report, we stated that expanding the scope of internal audit work to include more significant aspects of headquarters activities and operational activities, such as international trade and political relations, would increase the overall effectiveness of the Office of the Inspector General.
- 9.34 The scope of internal review has since been expanded. While a number of mission inspections and audits will continue to be carried out, the focus of internal review has shifted toward headquarters activities. However, coverage of the areas of real property and information technology remains limited.
- 9.35 The Department's audit and evaluation committee provides direction and support to the Inspector General. This committee is chaired by the Deputy Minister for International Trade and meets

semi-annually to approve the plans, priorities and performance of the Inspector General and identify issues for review.

The committee is functioning well.

- 9.36 Internal review continues to be active. In 1995–96, the Inspector General carried out a number of mission audits, headquarters audits, evaluations and inspections, as well as several resource-focussed special studies as inputs to Program Review.
- 9.37 In addition to internal audit reports, the Inspector General also prepares inspection reports of missions. These differ from audit reports in that they are more subjective, and contain the Inspector General's personal evaluation of human resource management in a mission. For this reason, their distribution is usually more limited than that of audit reports.
- 9.38 Some inspection reports contain specific recommendations on areas where costs might be cut, or the functioning of mission activities improved. Because distribution of these reports is usually more limited, the follow-up of recommendations is not as systematic as for audit reports. Our concern is that opportunities to effect improvements might be missed.
- 9.39 The Office of the Inspector General should implement a system to follow up and report on action taken on recommendations contained in inspection reports.

Department's response: The Inspector General will report to the Department's Executive Committee from time to time on the extent to which his recommendations are implemented.

The Bureau of
Physical Resources
shares responsibility
for the management of
property with the
geographic bureaus
and missions.

In the past two years, the Bureau of Physical Resources has made significant progress.

#### **Property Management**

The Bureau of Physical Resources has become more businesslike

- 9.40 The Department's total expenditures on property were approximately \$212 million in 1995–96. The Bureau of Physical Resources spent \$47 million on major construction and maintenance projects, and geographic bureaus and missions spent \$165 million to lease and maintain chanceries, official residences and staff quarters.
- 9.41 The Bureau shares responsibility for the management of property with the geographic bureaus and missions.

  Missions hold operating budgets for rental of properties and for minor maintenance, fit-up or renovation. They can also transfer funds from other spending objects or request additional funds from their geographic bureau. In addition, the Bureau holds a budget for major repairs and renovation as well as for new construction.
- 9.42 At the time of our audit in 1994, the Bureau of Physical Resources had just become a special operating agency (SOA). The purpose behind the change was to allow the Bureau to act in a more businesslike manner. In the past two years, the Bureau has made significant progress. For example, we found that it has:
- introduced Mission Property
  Management Plans. These plans provide
  key information concerning the
  management and use of property at each
  mission we visited. The plans are prepared
  by missions and, when current, they
  provide a basis for accountability
  discussions with the Bureau;
- disposed of approximately \$65 million in property since becoming a special operating agency;

- managed its cash flow by transferring some disposal revenues into later years to facilitate new construction;
- provided specialized training for its employees; and
- increased the rental revenue from excess space it holds. In 1994–95, the Department generated \$900,000 and increased revenues to approximately \$1,800,000 in 1996–97.

## The Bureau needs an overall financial plan for property management in the Department

- 9.43 The Bureau's charter as a special operating agency (SOA) requires that it prepare annual financial plans. Capital spending (land, buildings) makes up the bulk of the Bureau's expenditures. The Bureau has developed a Long-Term Capital Plan that has served as the financial component of its Business Plan for capital spending. The Plan includes a prioritized list of projects to meet the Bureau's objectives, which are to provide economical, safe facilities that meet program needs. The Long-Term Capital Plan is used as a comprehensive list of needed projects and opportunities for disposals. We examined the Long-Term Capital Plan to see if it served as an adequate financial plan.
- 9.44 The Bureau faces numerous difficulties in realizing capital projects abroad. Obtaining permits, negotiating with contractors, and working through other governments can lead to delays and make project timing uncertain. Property values in many countries have also fallen, forcing the Bureau to reconsider the availability of funding from disposals. Between 1993-94 and 1995-96, spending by the Bureau amounted to only 40 percent of the potential expenditures identified in the Plan. However, the most recent Plan in October 1996 indicates that the Bureau projects that it will carry out

capital spending totalling \$142 million in 1997–98.

- 9.45 The Department has been successful in disposing of many properties. Since becoming a special operating agency and to the end of our audit, the Bureau of Physical Resources has disposed of 115 properties worth \$65 million.
- 9.46 We found that most of the revenues generated from earlier disposals were not reinvested in the property portfolio. Of the \$65 million, the Bureau was not entitled to credit for government-directed disposals totalling \$25 million, initiated before the creation of the special operating agency. Subsequently, the Bureau initiated the disposal of about 90 properties worth approximately \$40 million. After repaying \$10 million to meet previous departmental commitments to deficit reduction, the Bureau retained approximately \$27 million to be used for property investment. In March 1995, the Treasury Board allowed the Department to retain 100 percent of disposal revenues, on condition that the revenues be reinvested in property. The Bureau considers the continuation of this arrangement vital, in light of the number and complexity of current and planned capital projects around the world. We believe that it provides the incentive, as well as an acceptable means, for portfolio management.
- 9.47 The Bureau has not achieved its short-term projections for revenue from disposals shown in the plan. The Bureau planned in 1993 to dispose of a large number of properties for revenues of \$19 million. Planned disposal revenues increased to \$21 million in 1994–95, and \$34 million in 1995–96. Its current plan projects revenues of almost \$36 million from disposals in fiscal year 1997–98.

- Actual revenues from disposals peaked at \$20 million in 1994–95 and have averaged \$11 million per year since 1993–94. Officials told us that the Department holds properties that could be sold, as a reserve against future needs. It sells properties when funds beyond its appropriation are required for new projects.
- 9.48 The shared responsibility for property management among the Bureau, geographic bureaus and heads of mission can complicate planned disposals. Conflicting objectives can arise, resulting in delays and additional costs.
- An example of such a complication occurred recently at one mission. In April 1996, the Treasury Board approved a Bureau initiative to sell the official residence at the mission and replace it with a leased property. The Bureau had plans to use the gross revenues of \$12 million to build needed facilities at other missions. A residence meeting departmental guidelines was leased for \$350,000 per year and renovations and furniture purchases totalling \$300,000 were undertaken. On arrival, the new head of mission was moved temporarily into the property intended for sale and then refused to move into the leased property. Since August 1996, senior management at headquarters has been negotiating with the mission without resolution. In the meantime, renovations have halted and the leased property has remained vacant.
- 9.49 The following illustrates why information on spending and revenues needs to be presented using more likely timeframes. The Bureau's latest Plan submitted to the Treasury Board in November 1996 showed projected revenues for 1997–98 of \$84.6 million. These revenues were made up of \$36.2 million from property disposals, \$19.4 million from prior years' disposals, rental revenue of \$3.1 million and parliamentary appropriations of \$25.9 million. Projected expenditures for

The Long-Term Capital Plan does not serve as an overall financial plan.

There were no maintenance plans for official residences that had been agreed to by the missions, geographic bureaus, and Bureau of Physical Resources.

1997–98 were \$142 million. However, on the one hand, if disposals were actually to take place as projected in the plan, and expenditures were to remain in the average range of \$30 million to \$40 million (\$36 million projected for 1996–97), the \$25.9 million appropriation would not be needed. On the other hand, if all the projected spending of \$142 million occurred in 1997–98, an additional appropriation of \$57 million would be needed.

- 9.50 The Long-Term Capital Plan does not serve as an overall financial plan. It is used primarily to match revenues from parliamentary appropriations and disposals with most recent estimates of expenditures in the current year. It has also been used to track regularly the progress of each individual acquisition or disposal project.
- 9.51 Although the Plan lists projects and their estimated costs, it does not present realistically the fiscal years in which spending on these projects will likely take place. Nor does it present financial strategies for funding projects under different timing assumptions. The Plan shows that most spending will take place in the next fiscal year; however, the Bureau's experience indicates that these expenditures will likely be incurred over several years.
- 9.52 In addition to the Long-Term Capital Plan, future Business Plans should present likely annual expenditures and revenues. They should also show the financial impact of delaying or accelerating projects or disposals, and the Bureau's strategies for dealing with these possibilities.

Department's response: Agreed.

## Maintenance requirements for official residences are not clearly established

- 9.53 The Bureau inspects properties at every mission at least once every two years. In addition, missions are expected to inspect each of their properties annually. There were no maintenance plans for official residences that had been agreed to by the missions, geographic bureaus, and the Bureau of Physical Resources. In the absence of complete, agreed-upon maintenance plans and detailed maintenance histories, inspection is a key spending control.
- 9.54 We examined expenditures on official residences for a sample of 5 large and 15 smaller missions where the heads of mission had recently changed. Departmental property managers consider that the most opportune time to do repairs or renovations to a residence is when one head of mission leaves and before another arrives, usually every three years. We found that in the large missions examined, from 1993 to 1996, the cost of work on the official residences ranged from \$79,000 to \$332,000 over an 18- to 24-month period around the time the head of mission changed. In the smaller missions examined, the range was from \$2,000 to \$268,000.
- 9.55 We compared the work called for in inspection reports prepared by Bureau staff with actual work undertaken. We found that in eight of the 20 cases, in conjunction with the arrival of a new head of mission, missions undertook significant work that was not identified in previous Bureau inspection reports. For example:
- The Department spent \$225,000 at one mission for maintenance, repairs and renovations between September 1995 and the end of September 1996. About one third of this amount involved routine maintenance that normally would not be included in inspection reports. The

previous inspection report in February 1994 had identified about \$25,000 for repairs to the roof and electrical system. These repairs were carried out in 1994–95. Staff at the mission identified significant additional work to be done and indicated that they considered the report to be incomplete.

- Another mission undertook \$127,000 of various repairs that had not been foreseen by earlier inspections.
- **9.56** We could not determine from the documentation whether Bureau staff had participated actively in all major repair and renovation decisions and approved all amounts, as would be normal practice.
- 9.57 In 12 of the cases, amounts spent were not budgeted fully at the beginning of the fiscal year. Of five large missions, one spent more than double its initial renovation and repair budget for the official residence the year a new head of mission arrived, and three spent about one and a half times their budgets.
- 9.58 The Department does not keep a centralized record of renovations and major repairs to each property. There was no focal point for analysis of overall spending on a property. The financial system records expenditures, but in most cases we examined, we were not able to tell from those records precisely what work had been done. The Property Manual issued in April 1996 provides guidance to missions on the nature of information related to work undertaken and costs that should be kept in mission property records. At the time of our audit, these guidelines were relatively recent and the information they called for was not always present in property records. In one mission we examined, where large amounts had been spent on the official residence, we were unable to determine from the property file exactly what work was done

and to what extent it consisted of repairs, redecoration or renovations to the official residence.

- 9.59 Our analysis of spending for renovation and repairs to official residences indicates insufficient control by the Department. The Department has spent large amounts on renovating and repairing official residences when heads of mission changed, without clearly establishing the requirements. Many missions spend large unforeseen amounts of their own operating budgets to improve the official residence when a new head of mission arrives. We could not assess the impact of that spending on other mission priorities.
- Resources should note in its inspection reports whether missions have accurate descriptions of work to be done. Inspections should review work previously carried out and ensure that it has been properly entered into property records. Where missions request significant expenditures for repairs or renovations beyond those in inspection reports, the Bureau or the mission should carry out a new inspection, and the work should be approved by the Bureau.
- 9.61 Missions and the Bureau of Physical Resources should co-ordinate their efforts in conducting inspections, preparing plans and budgets for renovation and repair, and analyzing significant spending on properties.

Department's response: Agreed. This is predominantly the practice now. A central record will also be kept of significant projects on official residences so that both Mission and Bureau projects are fully documented. The recommended co-ordination process is already being implemented as a result of the 1996 Departmental Review.

It should be noted that it is often economical and efficient to undertake repairs and refurbishments to any housing abroad at the time of the change of occupant. No necessary expenditures have been identified and, in fact, departmental property maintenance and furnishing budgets have been cut.

## There are opportunities for savings in representational housing

9.62 In 1995, the Department established representational housing guidelines that resulted in the disqualification of over half the properties used for diplomatic hospitality. As these properties are more spacious than normal staff quarters, the aim was to identify properties for disposal or replace more costly leases with less expensive ones. We were unable to determine if the changes in the representational housing policy are generating the savings expected. The Department had not put in place specific mechanisms to monitor the effectiveness of the guidance provided. During our visits to missions, we noted mixed results from the guidelines. In some cases, former representational houses had become part of the general housing stock. In other cases, large oversized houses were being put up for sale.

9.63 The Department assigns representational housing based on a requirement for substantial in-home official hospitality, for example, monthly sit-down dinners for eight or more guests. To examine the use of these properties, we reviewed the hospitality diaries of 34 program managers at the six missions visited. We found that representational properties were underused for in-home official hospitality. Only in four cases were the program managers meeting departmental guidelines for official hospitality at home.

9.64 In one mission where program managers were given a higher rent allowance of \$8,100 per year to cover the cost of leasing a larger property suitable for representational purposes, none met the minimum level of use expected. In one case, the property was not used at all for official hospitality at home for the full four-year duration of the occupant's posting.

# 9.65 The Department should re-examine its continuing need for representational housing.

Department's response: Agreed. The fall 1996 Business Plan submitted to the Treasury Board Secretariat made a commitment to develop new housing guidelines to reflect today's cost and space standards, and the fact that in-house representational functions have been significantly reduced because of cuts in hospitality budgets.

#### Cost-saving initiatives have been undertaken

9.66 In our 1994 Report, we stated that significant cost-saving opportunities existed through reconfiguration of the property portfolio. Departmental information systems did not monitor the reduction in property costs attributable to downsizing at missions separately from those due to cost-saving initiatives.

9.67 Nevertheless, we believe the Department is improving the composition of its portfolio. For example, in London, the Bureau of Physical Resources was able to generate revenues of \$17 million on the disposal of 46 properties. Leases with expiry dates far into the future were retained over leases that were almost expired. In Mexico City, Brasilia and Kingston, Jamaica, we noted that individual managers took initiatives to reduce property costs through renegotiation. In other missions, owned

improving the composition of its property portfolio.

The Department is

Representational properties were underused for in-home official hospitality.

properties were retained over leased properties when missions were downsized.

9.68 The Department has further plans to expend capital funds to achieve savings. For example, it is in the process of disposing of underused and vacant property in Tokyo and replacing it with lower-cost properties for a projected net gain of about \$26 million.

## The Department lacks adequate information to manage its property

- 9.69 Since our last audit, the Bureau of Physical Resources has not yet been successful in developing and implementing an information system that adequately supports its property management function.
- 9.70 Existing information at headquarters on individual properties was in most cases not timely or accurate and was generally two years old. In the interim, leases have expired, buildings have been sold, occupants have changed and budget data are no longer valid. The Bureau is updating its data from the missions. However, only one third of the missions met the November 1996 milestone for submitting new data, and there are insufficient procedures for ensuring accuracy.
- 9.71 Inaccurate data on the size of staff quarters is a problem. The Department's Property Manual specifies a method for measuring space, but missions are not fully complying with the methodology. Without accurate data on space, comparative performance measures, such as cost per square metre, cannot be used.
- 9.72 Mission cost estimates for maintenance in the information system often cannot be traced to projects in the mission property management plans. This

lowers confidence in the data system as well as in the plans themselves.

- 9.73 The Bureau has encountered difficulty in attempting to implement its data systems to support the management of departmental properties. It began work on one new system that it was not able to implement fully. The Bureau has now developed and sent to missions a new system called "PRIME", which it plans to have fully functional by the spring of 1997. We noted that some missions have had difficulty with the new system, both inputting and retrieving data. The system will hold basic data such as property size, location and maintenance budget. However, it will not be able to access the financial system and will not retain information on the maintenance history of a structure. The Department is considering adding a module in 1998 to its proposed new financial system that would hold these data.
- 9.74 In 1994 we indicated that the development of simple performance measures, such as cost per square metre and cost of accommodation per employee abroad, would improve property management.
- 9.75 Due to the lack of good information, the Bureau has not been successful in developing reliable performance measures for property at the departmental level. Accuracy of cost data and other basic information, such as property size, remains uncertain.
- 9.76 The Department should develop a database that includes property maintenance history. Information on property should be linked to the departmental financial information system. The Department should develop performance measures to improve property management.

Department's response: Agreed.

Existing information at headquarters on individual properties was in most cases not timely or accurate.

#### **Managing Information Technology**

9.77 Over the past five years, the Department has invested approximately \$80 million annually in information technology (IT). In our 1994 Report, we indicated that we would revisit the Department to do more work in the IT area. This report follows up on some themes that we have raised before, and raises new issues.

#### Global desk-to-desk communications has been achieved

9.78 At the most basic level, SIGNET (Secure Integrated Global Network) represents the Department's capability to send e-mail and share information electronically at over 110 locations around the world. The Department has been successful in achieving unclassified private global desk-to-desk communications with the implementation of SIGNET. However, it has proved to be a greater task than originally envisioned.

9.79 The Department's planned completion date for the roll-out of SIGNET was 31 March 1995. At that time, approximately 96 percent of departmental staff around the world had been connected. Installation at 19 missions out of the 115 missions planned for full SIGNET connectivity remained to be completed. Since then, the Department has connected the 19 missions and has extended the original project to include connecting 41 micro-missions. These 41 missions require a special micro-mission SIGNET solution. The Department's plan was to complete these installations by the end of the 1995-96 fiscal year. As of November 1996, the micro-mission solution was still being finalized. The Department has now begun to roll out fully classified SIGNET at the missions.

## Some IT projects were launched without adequate business case analysis

- 9.80 SIGNET opened up the possibility of a range of information technology services for the Department. Demand for services was not always accompanied by resources allocated to pay for them. At times, departmental processes for approving project funding and tracking costs for IT services were not followed.
- 9.81 A 1993 departmental policy requires that IT initiatives over \$250,000 be supported by project briefs containing a five-year cost/benefit analysis approved by senior managers. We found examples where this policy was not followed.
- The new Trade Development system, Client Tracking, did not go through this formal approval process, despite a one-year budget of \$280,000 for the ongoing project.
- Implementation of the internal Intranet and employee access to Internet via SIGNET also did not go through the formal approval process; costs of related equipment and software are over the \$250,000 threshold requiring approval.
- 9.82 The Department has treated separate components of broader IT initiatives, such as Internet access, as separate and incremental. As a result, it did not always do the appropriate cost/benefit business case analysis generally associated with the implementation of IT initiatives. Without this analysis, the Department is not in a position to understand the full implications for its overall budgets and for the organization of providing resources to its IT activities. The Department has recognized the need for better analysis of proposed IT projects and has initiated a revised project approval process.
- **9.83** One area where the Department recognizes the need for fully identified

The Department has been successful in achieving unclassified private global desk-to-desk communications.

costs is the cyclical replacement of SIGNET equipment. The Department is in the process of developing a detailed cyclical replacement plan. This initiative is part of an effort to better manage IT assets by developing and implementing Department-wide IT asset management strategies. A cyclical replacement plan depends on inventory management. Although some missions did not have accurate inventories, the Department is trying to improve its inventory system. Also, we did not find plans for the purchase of IT equipment at the missions, although the missions were spending some of their funds on information technology. We found that some missions show a history of heavy year-end spending with no IT budget planning.

## The Department has established a Chief Information Officer (CIO)

9.84 In November 1996, the Department implemented a new governance structure to better manage information technology. Key to the new structure is the Chief Information Officer (CIO). The CIO participates at Executive Committee meetings and is responsible for leadership and vision for the Department's corporate IT strategy as well as the functioning of the committees that will deliver IT governance.

9.85 The Department made the new CIO accountable for consolidating the plans and budgets for all IT expenditures in the Department and recommending priorities. However, we noted that the Department did not explicitly state that the CIO has the authority to track and monitor IT expenditures across the Department. The Department has subsequently reviewed the CIO's mandate and reaffirmed that the CIO does have this authority.

9.86 Departmental staff told us the financial information system was not used in a consistent way for budgeting IT expenditures across the Department. Consequently, the \$10.4 million spent by the Department in 1995-96 on IT equipment was four times the \$2.6 million shown for IT equipment in the departmental financial information system in June 1995, and twice the \$4.5 million shown in March 1996. The CIO recognizes the need to develop a system to identify planned IT expenditures across the Department and monitor actual expenditures against these plans.

9.87 The Chief Information Officer is responsible for promoting
Department-wide synchronization of IT projects as well as facilitating their development and implementation in collaboration with staff of the Department and other departments. One of the first major challenges will be the CIO's involvement in the acquisition of the Department's new financial system.

## An ambitious timetable set to replace the financial information system

9.88 In 1993, the government decided that its accounting practices should more closely resemble those of the private sector. Introducing this strategy meant that government departments would have to change their computer systems. The government decided that departments must choose from among seven approved financial systems.

9.89 Departments choosing the same system were supposed to agree on what constituted their core accounting activities — those that would form the basis of each department's system. The government believed that by limiting the number of systems, and having departments work in cluster groups and agree on core activities, departments would benefit from shared development costs. The government

The Department will face several important challenges in the next

phase of its project to

replace its financial

management system.

expected departments to choose their system by 30 December 1996 and anticipated that they would implement their new financial information systems by 1 April 2001.

- 9.90 The approach of Foreign Affairs and International Trade to choosing its new financial information system was comprehensive and appropriate for the task. The Department consulted broadly and users were involved in committees developing requirements and reviewing the various systems. Departmental officers commented that this effort was probably their greatest involvement ever in the procurement of a new system.
- 9.91 In the next phase, the Department intends to contract with a vendor, detail its business processes, and implement its new financial system at headquarters. It has set its delivery date for implementation at headquarters as 1 April 1998, which it recognizes is an ambitious target. Based on discussions with companies involved in implementing systems, departmental officials believe that they can meet the delivery date. The Department had a project under way to confirm the delivery date and to identify costs by the end of March 1997.
- **9.92** The Department will face several important challenges in the next phase of its project to replace its financial management system:
- The Department has not yet set aside funds internally for the new system, and the preliminary estimate for the cost of implementing the system (\$11 million) may be low. The estimate does not include the costs associated with departmental personnel. Because the Department has some special needs, there will be development work. Programmers are expensive and delays of any kind can affect the cost of delivery. Our experience has been that development work usually

takes longer and costs more than anticipated.

- The Department's understanding is that quality assurance for the core activity agreed to by the cluster group will be done in common. However, quality assurance for any add-ons or variations to the core are the responsibility of the department making the changes. This is a crucial area and is sometimes seen as interfering with the speedy delivery of a system.
- The Department has chosen a system that has business processes built into it. These will require the Department to make fundamental changes to many administrative practices.
- Management of change and proper training, needed as a result of changes in business practices, will be critical to the success of the implementation.
- A project of this magnitude requires a project team that will have continuity for the full implementation period. The Department also must have continuous user involvement during and after the implementation phase to ensure a successful outcome. Maintaining a project team and having stable user involvement is a significant challenge for the Department. In the first phase of the project, at least one committee lost members due to postings. As well, the chairpersons of at least two of the committees will not be available for the next phase of the project.
- There are a number of risks associated with the uncertainties inherent in systems under development. One major risk is slippage against project milestones. The Department will need information on a continuing basis on any such slippage to lessen the impact on the system's functional requirements and its planned cost and delivery schedule.
- **9.93** The Department will have to deal with these and other issues to implement the new financial information system successfully.

#### **Foreign Service Directives (FSDs)**

## Recent initiatives may lead to simplification

9.94 The Foreign Service Directives have not changed since our 1994 audit. As a result, their size (450 pages) and complexity remain the same as we reported them. In December 1995, a Report of the Steering Committee for the Fundamental Review of the Foreign Service Directives was issued. This represented a major comprehensive effort to re-examine the foreign service allowance structure and the provisions of the FSDs. Although substantive employer/employee discussion concerning these recommendations has not yet taken place, the Report will be a major input to future deliberations on the Foreign Service Directives.

9.95 The Report dealt directly with issues we had raised in 1994 and 1995. It recommended, among other things, that the quasi-legal "underbrush" of the existing directives be cut down and instructions removed entirely, with a view to an 80 percent reduction in overall FSD length and size. It also recommended certain changes to improve the relevance of the directives and to effect potential cost savings. Further, it recommended that the guiding principles of fairness, affordability, flexibility and cost effectiveness be added to the existing comparability, incentive/inducement and program-related FSD principles, with cost effectiveness the overriding principle.

9.96 A 1996 Revenue Canada technical interpretation of the taxable status of several FSDs reversed earlier rulings and required a revision of financially related directives reviewed by Revenue Canada. In response, a working group chaired by the Treasury Board Secretariat prepared some proposed

changes to these directives. Foreign Affairs, with advice from Revenue Canada, then rewrote all financially related FSDs so that these employer expenses would qualify as special non-taxable allowances under section 6 of the Income Tax Act. An additional working group, using the Steering Committee Report, has examined all FSDs to ensure that they are simpler and more defensible in the present-day context. Results from this work will be presented to the Treasury Board for management approval and then discussed with employee representatives through the National Joint Council.

9.97 The administration of the Foreign Service Directives within the Department appears to have become less time-consuming for employees and administrators in both headquarters and missions abroad. The Department has built upon initiatives noted in 1994, such as developing a Foreign Service Handbook, keeping a record of FSD interpretations and providing automated access to FSD information at the employee workstation. Mission visits have indicated that employees are less preoccupied with FSD issues and interpretation. This broad perception is reinforced by employee use of SIGNET e-mail to access headquarters for FSD advice and specific interpretations. As well, headquarters has been reorganized to provide more timely information and service to staff abroad. This has reduced time spent on FSD-related matters by mission administrative officers and employees at missions abroad.

## The capability to analyze costs has been strengthened

9.98 In 1994 we reported that FSD costs were rising without proper review. The Department's ability to provide and analyze FSD cost information has

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The Department has now installed and enhanced a Foreign Service Directives cost database.

improved over the past few years. In 1994 the Department did not have an operational cost database to assess FSD expenditure trends effectively or identify specific cost drivers. It has now installed and enhanced an FSD cost database based on a model developed by our Office, with departmental assistance, during the 1994 audit. FSD cost information is also now regularly downloaded from the Department's financial information system. Cost trends by line object can be calculated and provided to those responsible for FSD decisions.

Current arrangements for the management of Foreign Service Directives could be improved.

9.99 Total expenditures under the Foreign Service Directives were \$153 million in 1995–96. We noted that the cost per person posted abroad continued to increase at the same annual rate (nine percent) as reported in 1994. Several factors can contribute to increases or decreases in FSD expenditures, such as the number and profile of Canada-based staff (CBS) posted abroad and the value of the Canadian dollar.

## The shared management structure needs to function more effectively

9.100 The Treasury Board Secretariat has stated that responsibility and accountability for the Foreign Service Directives is clear and well established. In its response to the Public Accounts Committee (August 1996), the Secretariat indicated that it ultimately takes responsibility for FSD policy and departments take responsibility for implementation (for example, the use of FSDs, where individuals are posted and at what cost). The Secretariat also emphasized the importance of the bargaining agents' role in FSD determination (FSDs are negotiated entitlements that supplement the salary of Canada-based staff while abroad).

9.101 The Report of the Steering Committee for the Fundamental Review of the Foreign Service Directives indicates that while FSD accountability and responsibility make sense in theory, some question remains as to their effectiveness in practice. The Report recommends, among other things, that macro policy responsibility remain with the Treasury Board Secretariat and day-to-day policy and interpretation be left to departments and, to the extent possible, to managers in posts.

9.102 Two FSD-related issues illustrate that current arrangements for the management of FSDs could be improved. The Department is currently in the process of redesigning the system that determines post differential allowances for staff abroad (FSD 58). However, the Treasury Board is responsible for policy changes of this nature and would normally either lead this activity or delegate this responsibility to others.

9.103 We also noted that the Department has not complied with FSD 70 (Reporting Requirements). It administers the FSDs and, in so doing, collects and retains much of the information on FSD use. Since 1990, FSD 70 has required that the Department provide to the Treasury Board Secretariat annual summary data concerning utilization and costs under various FSDs. To date, the Department has not done so despite requests from the Treasury Board Secretariat.

9.104 The Department and the Treasury Board Secretariat should integrate their activities more effectively under the current management structure for the Foreign Service Directives.

Department's response: Agreed.

## The management of travel under the FSDs has improved

9.105 In response to the Public Accounts Committee (PAC) in August 1996, the Department stated that internal audit test results indicated that travel irregularities involving "ticket cashing" by departmental employees had stopped.

9.106 Also in response to the PAC, the Treasury Board Secretariat reported that its study of 1993 changes that were made to FSD 45 (Foreign Service Leave) and FSD 50 (Foreign Service Travel and Vacation Assistance) had achieved their purpose, lowered administrative and overall costs, and increased employee satisfaction. The Department, in its response to the Public Accounts Committee, reinforced these observations and provided data that indicate that expenditures under FSDs 45 and 50 have levelled off at a pre-1993 level; however, it did not provide quantitative evidence to support reductions in administrative costs. Our analysis indicates that FSD 45 expenditures have increased slightly and that FSD 50 expenditures have decreased by 14 percent, from \$8.4 million to \$7.2 million over the past two years.

9.107 The Inspector General's Office audited headquarters air travel and hotel costs during the last quarter of 1995-96. Its report concluded that the Department must continue to stress the need to economize on air travel costs; potential exists for cost savings (for example, cheaper fares, use of group travel arrangements); Government Travel Service performance reports on travel for the Department are misleading; and travel management policies across departmental branches range from formal documentation to no consistent practices at all.

9.108 In its 1996 response to the Public Accounts Committee, the Department outlined a series of initiatives that had improved its management of travel. These initiatives include improving account verification, establishing client service standards, implementing statistical sampling of travel claims, establishing an accounts collection committee, modifying departmental financial systems, and providing better information and training to employees. Our review of these initiatives indicates that the Department has made progress in these areas. As a result, the level of outstanding claims has been reduced from \$3.5 million to \$500,000.

#### **Departmental Reorganization**

#### The Department's management structure is in transition

9.109 In September 1996, the Department began to implement a new organization structure and management process. The number of assistant deputy ministers was reduced from eleven to seven, new roles and responsibilities were assigned to senior managers, and the number of bureaus and divisions was reduced.

**9.110** As part of this process, the Department also articulated a series of business lines as the link between the three key objectives of Canada's foreign policy and the process of managing Canada's foreign relations. These business lines are:

- International Business Development
- Trade and Economic Policy
- International Security and Co-operation
  - Assistance to Canadians Abroad
  - Public Diplomacy
  - Corporate Services

In September 1996, the Department began to implement a new organization structure and management process.

- Services to Other Government Departments
  - Passport Services.
- 9.111 The new structure changed existing relationships in the Department. One of the objectives is to increase the extent of collaboration among assistant deputy ministers and introduce a system that will allow for a more effective allocation of resources. Functional assistant deputy ministers develop global policies and initiatives to achieve worldwide the objectives of each business line. The geographic assistant deputy ministers implement each business line within their respective regions. Heads of mission are responsible for program delivery in each country.
- 9.112 At headquarters, the director-general level the level immediately below assistant deputy minister is to be responsible for operational decisions in both the functional and geographic branches. The intent is to have responsibility for financial management reside at this level.
- 9.113 A common understanding of the nature of the business, and of lines of responsibility and accountability, must be in place for sound financial management practices to spread from the top down throughout the organization. Our discussions with senior officials revealed that there was uncertainty as to how responsibility and accountability would evolve in practice.
- **9.114** In the area of resource allocation, there was not a common understanding of the roles and responsibilities of the functional assistant deputy ministers relative to those of the geographic assistant deputy ministers.
- **9.115** At the time of our audit, the Department was going through its first

- planning cycle under the new structure. In this process, it was working out what these organizational changes mean in operational terms for resource allocation, financial management and control, and accountability for financial performance and results under its lines of business.
- 9.116 Accountability arrangements for heads of mission also appeared uncertain. Directors-general are to prepare head-of-mission appraisals; yet heads of mission also receive direction from both functional and geographic assistant deputy ministers, and have direct contact with elected officials as well. We were told that annual mission plans were no longer required because they were not considered useful. They were to be replaced by accountability agreements between heads of mission and the geographic assistant deputy ministers. These agreements were to include performance expectations for each of the programs delivered by the missions; however, often they were not prepared. There is no Department-wide requirement that they be prepared, nor is there universal agreement that they should be. Consequently, one of the basic reference points for accountability was absent in many cases.
- 9.117 Shared responsibility for management and decision making is also present in a number of support areas such as information technology, property management and the Foreign Service Directives. However, this approach makes accountability for decisions and for operating and financial results less clear.
- 9.118 As part of improving financial management and accountability in its new structure, the Department will need to focus on setting performance targets, measuring results, and linking these back to costs in these support areas as well as for its lines of business.

#### Conclusion

- **9.119** In our 1994 audit, we concluded that the Department had improved its financial management practices and controls. We also commented that a few key questions remained to be answered.
- Have these initiatives and changes made a sustainable difference?
- Have the improvements we found been applied consistently across the Department?
- Has the foundation been laid to encourage and assist departmental managers to make responsible and reasonable financial decisions?
- **9.120** Based on this audit, the answers to these questions are mixed. When the Department has focussed its efforts on improving practices and controls in specific areas, it has been successful.

However, the audit also shows that there are other areas where similar efforts are needed.

- 9.121 Cost awareness and attitudes of stewardship are values that are evident but not yet consistently present across the Department. The new corporate structure, with its reduced number of senior staff, is a visible indicator of the commitment to improve the use of departmental resources. The challenge for senior management is to find a way to reinforce this commitment at all levels and locations throughout the Department.
- 9.122 The Department is now supported by better financial systems and information. Good planning and project management will be necessary to ensure that the replacement of the financial information system is implemented smoothly and effectively, so that these improvements continue to be sustained.

When the Department has focussed its efforts on improving practices and controls in specific areas, it has been successful.

There are other areas where similar efforts are needed.



#### **About the Audit**

#### **Background**

The issue of financial management and control has been the focus of much of our work over the past 10 years in Foreign Affairs and International Trade. Our 1987 audit of the Department, a follow-up audit in 1989, as well as a 1990 audit observation (concerning the need to improve control of funds advanced to employees) indicated that financial control deficiencies within the Department needed immediate attention and the overall financial function had to be strengthened.

The Public Accounts Committee (PAC), in its Ninth Report to the House of Commons in December 1990, made five recommendations concerning financial management and control in the Department. Accounting for funds advanced to employees was once again the central issue. Our monitoring activities from 1990 to 1993 indicated that departmental progress in responding to these recommendations was slow. With a growing number of reports highlighting incidents of waste and abuse in the Department, we increased our audit effort, culminating in the 1994 Report chapter. The main conclusion was that progress had been achieved in meeting PAC recommendations, but it was not certain that the results of recent departmental efforts for improvement would be sustainable. The latter observation was based on the fact that resolving issues of accountability and system complexity as well as changing employee attitudes take time.

Since 1994, we have maintained a watching brief in these areas. In addition, an audit of travel under Foreign Service Directives (FSD) was reported in May 1995. The results reinforced our 1994 audit findings concerning FSD complexity and cost management.

#### Scope

This audit was conducted as a follow-up to our 1994 audit of financial management and control in the Department. Accordingly, we examined several areas covered in 1994: financial management practices, property management, internal review, information technology and the Foreign Service Directives. We conducted our audit at departmental headquarters and at six missions.

#### **Objective**

The objective of this audit was to examine whether the improvements we noted in our 1994 Report have been sustained since that time.

#### **Audit Team**

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For information, please contact John Hitchinson, the responsible auditor.

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